RESULTS FOR THE HALF YEAR ENDED 31 MARCH 2007

FINANCIAL REVIEW

GROUP PERFORMANCE HIGHLIGHTS

Overview

The Group recorded cash earnings from ongoing operations (i.e. adjusting for disposed operations) for the half year ended 31 March 2007 of $2,196 million, 9.3% higher than the September 2006 half and 22.8% higher than the March 2006 half.

Movement on the September 2006 half

The Group's performance for the half reflected good revenue growth and well controlled costs.

Cash earnings of $2,196 million increased 9.3% on the ongoing September 2006 half year result of $2,010 million. Key items include:

- Total lending across the Group increased 5.7% to $367 billion [(1)]. In addition, focus on the continuing diversification of the Group's funding base resulted in a 1.1% growth in deposits[(2)] and an 8.8% growth in longer term wholesale funding, namely bonds, notes and subordinated debt.
- Growth has been delivered while at the same time maintaining the overall Group net interest margin, which increased 2 basis points to 2.33%. Good volume growth combined with margin control resulted in an increase of 5.7% in net interest income.
- Strong volume growth of 9.3% in funds under management and administration in a favourable economic environment.
- Operating costs decreased by 0.6% reflecting the benefits delivered from the restructuring programme along with productivity and efficiency initiatives. Investment has continued into compliance projects, infrastructure and the customer facing parts of the business.
- Further softening in the global economic environment, with asset quality metrics indicating some deterioration in specific consumer segments that are being actively monitored. The Group's asset quality remains sound overall and within expectations for this point in the economic cycle. The charge to provide for doubtful debts increased by 16.4% over the half, as a result of softening economic conditions and a reduction in the level of writebacks.

The resulting diluted cash earnings per share of 133.8 cents represents an increase of 2.9 cents (2.2%) on the September 2006 half.

The interim dividend has been increased to 87 cents per share and will be 90% franked. For non-resident shareholders of the Company, the unfranked portion of the dividend will be paid from the Company's conduit foreign income account (being income derived from the company's offshore businesses) and therefore will not be subject to Australian withholding tax.

Movement on the March 2006 half

Cash earnings of $2,196 million increased 22.8% on the ongoing March 2006 half year result of $1,788 million. Key items include:

- Total lending for the Group increased 13.7% to $367 billion[(1)]. In addition, focus on diversification of the Group's funding base has led to a 8.8% growth in deposits[(2)] and 26.9% growth in longer term wholesale funding, namely bonds, notes and subordinated debt.
- Growth has been delivered while at the same time maintaining the overall Group net interest margin, which increased 2 basis points to 2.33%. Good volume growth combined with margin control resulted in an increase of 12.8% in net interest income.
- Funds under management and administration grew 10.4% in a continuing favourable economic environment.
- Increased income from volatility relating to fair value movements and hedge ineffectiveness in the Group's banking book.
- Operating costs increasing by 0.2%, reflecting continued focus on costs and the benefits delivered from the restructuring programme along with productivity and efficiency initiatives. This contributed to a decrease in the banking cost to income ratio from 55.6% to 50.3%.

The resulting diluted cash earnings per share of 133.8 cents represents an increase of 19.3 cents (16.9%) on the March 2006 half.

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

[(2)] *Includes deposits and other borrowings at cost and at fair value*

DIVISIONAL CASH EARNINGS

Half year ended 31 March 2007	Australia Region Banking $m	Australia Region WM $m	Australia Region Asia $m	UK Region $m	NZ Region $m	nabCapital $m	Other[1] $m	Eliminations $m	Total Group $m
Net interest income	2,681	(6)	13	996	425	533	141	-	4,783
Net life insurance income including IoRE [2]	-	1,223	-	-	10	-	-	-	1,233
Other operating income	853	362	2	508	213	321	57	(58)	2,258
Net operating income	3,534	1,579	15	1,504	648	854	198	(58)	8,274
Operating expenses [3]	(1,659)	(297)	(15)	(892)	(296)	(390)	(152)	58	(3,643)
Underlying profit	1,875	1,282	-	612	352	464	46	-	4,631
Charge to provide for doubtful debts	(181)	-	-	(155)	(24)	(33)	3	-	(390)
Cash earnings before tax	1,694	1,282	-	457	328	431	49	-	4,241
Income tax expense	(500)	(413)	-	(133)	(108)	(88)	(1)	-	(1,243)
Cash earnings before distributions and minority interest	1,194	869	-	324	220	343	48	-	2,998
Net profit - minority interest	-	(665)	-	-	-	-	-	-	(665)
Distributions								(137)	(137)
Cash earnings	1,194	204	-	324	220	343	48	(137)	2,196
IoRE (after tax)	-	(21)	-	-	(1)	-	-	-	(22)
Cash earnings before IoRE	1,194	183	-	324	219	343	48	(137)	2,174

(1) Other includes Group Funding, Corporate Centre and elimination entries within Australia Region.

(2) Net life insurance income is the profit before tax of the life insurance and investment businesses of the statutory funds of the life insurance companies of the Group (excluding net interest income).

(3) Operating expenses excludes the life insurance expenses incorporated within net life insurance income (Wealth Management businesses only).

Half year ended 30 September 2006	Australia Region Banking $m	Australia Region WM $m	Australia Region Asia $m	UK Region $m	NZ Region $m	nabCapital $m	Other[1] $m	Eliminations $m	Total Group $m	Disposed Operations[4] $m	Total Ongoing $m
Net interest income	2,490	14	13	957	374	503	143	-	4,494	33	4,527
Net life insurance income including IoRE [2]	-	559	4	-	5	-	-	-	568	(4)	564
Other operating income	1,007	339	1	558	250	285	124	(85)	2,479	(246)	2,233
Net operating income	3,497	912	18	1,515	629	788	267	(85)	7,541	(217)	7,324
Operating expenses [3]	(1,709)	(315)	(20)	(902)	(289)	(399)	(165)	85	(3,714)	48	(3,666)
Underlying profit	1,788	597	(2)	613	340	389	102	-	3,827	(169)	3,658
Charge to provide for doubtful debts	(164)	-	-	(156)	(24)	7	1	-	(336)	1	(335)
Cash earnings before tax	1,624	597	(2)	457	316	396	103	-	3,491	(168)	3,323
Income tax expense	(485)	83	-	(134)	(107)	(64)	(40)	-	(747)	51	(696)
Cash earnings before distributions and minority interest	1,139	680	(2)	323	209	332	63	-	2,744	(117)	2,627
Net profit - minority interest	-	(490)	-	-	-	-	-	-	(490)	-	(490)
Distributions								(127)	(127)	-	(127)
Cash earnings	1,139	190	(2)	323	209	332	63	(127)	2,127	(117)	2,010
IoRE (after tax)	-	(27)	(2)	-	(1)	-	-	-	(30)	2	(28)
Cash earnings before IoRE	1,139	163	(4)	323	208	332	63	(127)	2,097	(115)	1,982

[1] *Other includes Group Funding, Corporate Centre and elimination entries within Australia Region.*

[2] *Net life insurance income is the profit before tax of the life insurance and investment businesses of the statutory funds of the life insurance companies of the Group (excluding net interest income).*

[3] *Operating expenses excludes the life insurance expenses incorporated within net life insurance income (Wealth Management businesses only).*

[4] *Operating expenses for disposed operations reflect a cessation of depreciation charges for Custom Fleet for the four months from 1 April 2006 until settlement when this asset was classified as "held for sale". The depreciation for this period would have been $100 million if the assets had continued to be depreciated.*

Half year ended 31 March 2006	Australia Region Banking $m	WM $m	Asia $m	UK Region $m	NZ Region $m	nabCapital $m	Other[1] $m	Eliminations $m	Total Group $m	Disposed Operations $m	Total Ongoing $m
Net interest income	2,315	(6)	13	883	401	434	152	-	4,192	49	4,241
Net life insurance income including IoRE [2]	-	952	33	-	8	-	-	-	993	(33)	960
Other operating income	1,082	310	11	590	232	294	70	(87)	2,502	(379)	2,123
Net operating income	3,397	1,256	57	1,473	641	728	222	(87)	7,687	(363)	7,324
Operating expenses [3]	(1,875)	(296)	(29)	(954)	(372)	(366)	(128)	87	(3,933)	299	(3,634)
Underlying profit	1,522	960	28	519	269	362	94	-	3,754	(64)	3,690
Charge to provide for doubtful debts	(115)	-	1	(152)	(22)	17	1	-	(270)	-	(270)
Cash earnings before tax	1,407	960	29	367	247	379	95	-	3,484	(64)	3,420
Income tax expense	(417)	(527)	-	(110)	(80)	(93)	(31)	-	(1,258)	12	(1,246)
Cash earnings before distributions and minority interest	990	433	29	257	167	286	64	-	2,226	(52)	2,174
Net profit - minority interest	-	(259)	-	-	-	-	-	-	(259)	-	(259)
Distributions								(127)	(127)	-	(127)
Cash earnings	990	174	29	257	167	286	64	(127)	1,840	(52)	1,788
IoRE (after tax)	-	(29)	(11)	-	(2)	-	-	-	(42)	11	(31)
Cash earnings before IoRE	990	145	18	257	165	286	64	(127)	1,798	(41)	1,757

(1) *Other includes Group Funding, Corporate Centre and elimination entries within Australia Region.*

(2) *Net life insurance income is the profit before tax of the life insurance and investment businesses of the statutory funds of the life insurance companies of the Group (excluding net interest income).*

(3) *Operating expenses excludes the life insurance expenses incorporated within net life insurance income (Wealth Management businesses only).*

SUMMARY OF DISPOSED OPERATIONS

Half year ended 30 September 2006	Custom Fleet Australia $m	Custom Fleet UK $m	Custom Fleet NZ $m	MLC Asia $m	UK Discretionary Investment Management $m	Total Disposed Operations $m
Net interest income	(19)	(6)	(8)	-	-	(33)
Net life insurance income including IoRE [1]	-	-	-	4	-	4
Other operating income	143	50	49	2	2	246
Net operating income	124	44	41	6	2	217
Operating expenses [2]	(27)	(12)	(7)	(1)	(1)	(48)
Underlying profit	97	32	34	5	1	169
Charge to provide for doubtful debts	-	(1)	-	-	-	(1)
Cash earnings before tax	97	31	34	5	1	168
Income tax expense	(29)	(10)	(11)	(1)	-	(51)
Cash earnings before distributions and minority interest	68	21	23	4	1	117
Net profit - minority interest	-	-	-	-	-	-
Cash earnings	68	21	23	4	1	117
IoRE	-	-	-	(2)	-	(2)
Cash earnings before IoRE	68	21	23	2	1	115

Half year ended 31 March 2006	Custom Fleet Australia $m	Custom Fleet UK $m	Custom Fleet NZ $m	MLC Asia $m	UK Discretionary Investment Management $m	Total Disposed Operations $m
Net interest income	(29)	(7)	(14)	-	1	(49)
Net life insurance income including IoRE [1]	-	-	-	33	-	33
Other operating income	215	69	87	3	5	379
Net operating income	186	62	73	36	6	363
Operating expenses [2]	(163)	(56)	(68)	(7)	(5)	(299)
Underlying profit	23	6	5	29	1	64
Charge to provide for doubtful debts	-	-	-	-	-	-
Cash earnings before tax	23	6	5	29	1	64
Income tax expense	(7)	(1)	(2)	(1)	(1)	(12)
Cash earnings before distributions and minority interest	16	5	3	28	-	52
Net profit - minority interest	-	-	-	-	-	-
Cash earnings	16	5	3	28	-	52
IoRE	-	-	-	(11)	-	(11)
Cash earnings before IoRE	16	5	3	17	-	41

[1] *Net life insurance income is the profit before tax of the life insurance and investment businesses of the statutory funds of the life insurance companies of the Group (excluding net interest income)*

[2] *Operating expenses excludes the life insurance expenses incorporated within net life insurance income (Wealth Management businesses only).*

AUSTRALIA REGION

Summary – ongoing operations

	Half Year to			Fav / (Unfav) Change on	
	Mar 07	Sep 06	Mar 06	Sep 06	Mar 06
Cash earnings	$m	$m	$m	%	%
Australian Banking	**1,194**	1,071	974	11.5	22.6
Wealth Management Australia before IoRE	**183**	163	145	12.3	26.2
Asia	**-**	(6)	1	large	large
Australia Region before IoRE	**1,377**	1,228	1,120	12.1	22.9
IoRE (after tax)	**21**	27	29	(22.2)	(27.6)
Australia Region	**1,398**	1,255	1,149	11.4	21.7

Financial performance highlights of ongoing operations

The Australia Region delivered growth in cash earnings before IoRE of 12.1% for the March 2007 half, with continued income growth augmented by active expense management across all business units.

Income trends for the half were again strong. The sales performance in both the Banking and Wealth Management businesses (business lending, retail deposits and investments in particular) was aided by a favourable operating environment, including cash rate rises, strong equity markets and acceleration of fund flows due to changes in superannuation contribution arrangements. Margins were well managed, with product pricing and the careful management of product mix offsetting the impact of competitive pressures.

In addition, the Australia region delivered a third consecutive half of flat expenses, which has culminated in a further expansion of the gap between revenue and cost growth. These outcomes have been delivered through benefits arising from the restructuring and efficiency programs and continued focus on productivity.

Significant ongoing investment continues to underpin the sustainability of this performance. The March 2007 half saw an evolution from the 'Rebuild' phase of the Region's three-year turnaround into a program of work that provides a platform for the final phase, 'Truly Competitive'.

Balance Sheet management also continues to be a focus, with a strong inflow of retail deposits in Australia and Asia, additional securitisation ($3 billion) and term funding ($9 billion) continuing to support the diversification of funding and risk reduction strategies. Wealth Management completed $450 million in senior debt issues during the half, which following the $300 million issue in the prior half, facilitated a further release of capital from the Australia Region.

Business developments

- NAB saw improved Personal[(1)] and Business[(2)] customer satisfaction for the six months to March 2007 ([(1)] Roy Morgan Research, Aust MFI Pop'n 14+, % very or fairly satisfied, 6 month moving average; [(2)] TNS Business Finance Monitor, % of very or fairly satisfied businesses with turnover <$100m, 6 month moving average).
- MLC has maintained its industry leading position regarding 'fee for service' as a mechanism to improve the quality of advice and minimise conflicts of interest across the industry.
- NAB was awarded the '2007 Financial Review Smart Investor Blue Ribbon Bank of the Year' Award in March, recognising NAB's improving awareness of customers' financial services product needs.
- MLC was awarded the 'Best Income Protection Product' at the 2007 Financial Review Smart Investor Blue Ribbon Awards.
- Throughout the half NAB continued its program to develop capability and refresh the retail network. This includes new sales and business acumen training for frontline staff and increased capability in mortgage lending and business lending within stores. This has been supported by development and introduction of new incentive programs. In addition, during the half we have opened five new stores and have refurbished a further 90 stores in Victoria and NSW (bringing to 275 the total number of stores refurbished since October 2005).
- In February, NAB earned an 'Employer of Choice for Women' citation from the Federal Government's Equal Opportunity for Women in the Workplace Agency. This recognises our policies and practices that support women across the NAB and further demonstrates NAB's commitment to diversity.
- NAB's StepUp loan won the inaugural Gold Award for 'Best Socially Responsible Product' in Money Magazine's Best of the Best Awards 2007. NAB StepUp loans are designed for people on low incomes who normally would not qualify for a loan from a major bank. It is an initiative with the Good Shepherd

Youth & Family Service and is part of our commitment to support Australians who have the desire to get ahead but who are financially marginalised.

- During the half NAB announced a program to install 322 NAB ATMs into Coles Express and Coles Group stores. The rollout will extend NAB's ATM network by nearly 25%, with 40% of the new machines to be located in suburbs where there is currently no NAB presence.
- In March, MLC won three awards at the 2007 Asset Magazine Innovation Awards. The awards were for 'Best Income Protection Product' (MLC Income Protection Plus), 'Margin Lender of the Year' (NAB Margin Lending) and 'Best Platform for Administrating Self-Managed Superannuation' (MLC MasterKey Custom).
- MLC product developments included:
  - the launch of MasterKey Superannuation Fundamentals, a 'fee for service' offering that delivers a product free of commission and supports MLC's position that the payment for financial advice should be separate from the payment for a product; and
  - enhancements to the Personal Protection Portfolio (PPP), which applied to all existing and new clients for no extra premium. As part of this upgrade, MLC made a number of improvements to its Critical Illness, Life Cover, Income Protection and Total and Permanent Disability insurance products, including increases to limits and benefits.

Commitment to the community

- NAB demonstrated significant support for community organisations and charitable work including:
  - an investment of $30m over three years in microfinance initiatives, including $10m to support the loan capital requirements of no interest loans schemes (NILS®) across Australia; the launch of a viable microenterprise development program and the writing of the first loan under this program; and the expansion of 'StepUP ', a low interest loan program for low income households developed with Good Shepherd Youth & Family Service;
  - NAB's Tropical Cyclone Larry Relief Fund totalling almost $1.4 million raised from customer and employee contributions, as well as a bank donation of $250,000 plus an additional $250,000 NAB allocated to community infrastructure projects;
  - a bushfire assistance package for customers impacted by bushfire throughout the Australian Summer of 2006-07;
  - continued support of Ovarian Cancer Research Foundation, including raising $500,000 as part of the Silver Ribbon campaign; and
  - a $1 million program to expand The Alannah and Madeline Foundation's Better Buddies campaign against bullying in Australian primary schools. This commitment provides a range of support services to assist with the mission of keeping children safe from violence.
- NAB is a sponsor of the Fifteen Foundation supporting the training of underprivileged young adults to become chefs, demonstrating our shared philosophy to help create possibilities for people.
- Sponsorship of significant sporting and cultural events, including:
  - continued sponsorship of the AFL, including the NAB Cup competition, NAB AFL Auskick and the NAB AFL Rising Star program;
  - West Australian Opera;
  - Football Federation Australia and Australia's National Team, the Socceroos;
  - the Australian Ballet, as Lead sponsor and Major sponsor of its national Education Program.

Restructuring activity

- The restructuring program remains on track for the Australian region.
- Expenditure during the year included continued focus around the distribution strategy, product rationalisation and simplification and streamlining back office functions and processes. The remaining provision balance at March 2007 was $87 million largely reflecting costs associated with the retail banking distribution strategy.
- FTE redundancies under the program to date are 1,692, including an additional 188 redundancies during the first half of 2007.
- Gross expense benefits from the restructuring program were $98 million in the first half of 2007, an incremental $19 million over the September 2006 half and $37m above the prior corresponding period.

Australian Banking

Performance Summary – ongoing operations

	Half Year to			Fav/ (Unfav) Change on	
	Mar 07	Sep 06	Mar 06	Sep 06	Mar 06
	$m	$m	$m	%	%
Net interest income	**2,681**	2,509	2,344	6.9	14.4
Other operating income	**853**	864	867	(1.3)	(1.6)
Total income	**3,534**	3,373	3,211	4.8	10.1
Operating expenses	**(1,659)**	(1,682)	(1,712)	1.4	3.1
Underlying profit	**1,875**	1,691	1,499	10.9	25.1
Charge to provide for doubtful debts	**(181)**	(164)	(115)	(10.4)	(57.4)
Cash earnings before tax	**1,694**	1,527	1,384	10.9	22.4
Income tax expense	**(500)**	(456)	(410)	(9.6)	(22.0)
Cash earnings	**1,194**	1,071	974	11.5	22.6

Key Performance Measures – ongoing operations

	Half Year to			Fav/ (Unfav) Change on	
	Mar 07	Sep 06	Mar 06	Sep 06	Mar 06
				%	%
Performance & profitability					
Return on average assets (annualised)	**1.06%**	1.01%	1.00%		
Cost to income ratio	**46.9%**	49.4%	52.9%		
Cash earnings per average FTE (annualised) ($'000)	**129**	117	108		
Net interest income					
Net interest margin	**2.41%**	2.39%	2.42%		
Net interest spread	**2.27%**	2.30%	2.36%		
Average balance sheet ($bn)					
Gross loans and acceptances	**221.8**	208.9	194.5	6.2	14.0
Interest-earning assets	**222.8**	208.9	194.3	6.7	14.7
Retail deposits	**92.7**	85.9	82.0	7.9	13.0

Key Performance Measures – ongoing operations

	As at		
	31 Mar 07	**30 Sep 06**	**31 Mar 06**
Full-time equivalent employees (FTE)	**18,643**	18,286	18,132
Asset quality			
Gross impaired assets ($m)	**690**	549	430
Gross loans and acceptances ($bn)	**227.2**	213.9	198.9
Gross impaired assets to gross loans and acceptances	**0.30%**	0.26%	0.22%
Specific provision to gross impaired assets	**13.4%**	14.0%	25.0%
Market share (%) [(1)]			
Housing	**13.54**	13.80	14.13
Business (including nabCapital)	**19.01**	18.97	18.73
Other personal	**14.90**	15.01	15.52
Retail deposits (Personal & Business)	**14.21**	13.99	14.19

(1) *Source: RBA Financial Aggregates/NAB – data as at March 2007.*

Financial performance of ongoing operations– movement on September 2006 half

Cash earnings increased 11.5% and return on average assets increased 5 basis points on the prior half. This continued the strong momentum in Australian Banking which has been underpinned by 4.8% income growth as well as successful delivery on the ongoing program of work to improve efficiency.

Underlying profit increased by 10.9%, driven by:

- Net interest income increased $172 million or 6.9%:
  - Average interest earning assets grew 6.7%, with the impact of a strong economy in Western Australia partially offset by the continued relative weakness in New South Wales. Business lending volumes were robust, while growth in mortgage volumes slowed, particularly in the broker channel.
  - Average retail deposit volumes rose 7.9% due to strong growth in online deposits, term deposit products and business transaction accounts.
  - The net interest margin was steady, with higher deposit margins due to pricing, offset by lending margin contraction and portfolio mix impacts (mainly deposits).
- Other operating income declined $11 million or 1.3%. The transfer of the bank's wholesale funding activities from Group Funding resulted in fair value and hedging revaluations being included in the Australia Region. Seasonally lower income across several products (particularly Cards) and ongoing customer migration to lower fee products were offset by a $30 million increase as a result of volume growth and increased activity.
- Operating expenses declined $23 million or 1.4% due to incremental benefits from efficiency initiatives ($45 million) and restructuring ($15 million), as well as active management of expenses. Depreciation charges were lower due to assets held for sale and therefore not depreciated ($31 million). These items offset underlying expense growth associated with higher performance-based remuneration and increased expenditure on investment and business development, including the development of new Specialised Business Lending segments. Higher staff numbers reflected recruitment for predominantly frontline operations, partially offset by 188 redundancies.

The combination of these factors saw the cost to income ratio fall 250 basis points to 46.9%.

The charge to provide for doubtful debts increased by $17 million or 10.4%. Higher charges were associated with consumer segments, continued relative weakness in the New South Wales economy, and volume increases in business banking.

Asset quality remains sound. The increase in impaired asset balances was driven primarily by the strong lending volume growth and the impact of economic conditions on consumer segments in New South Wales (particularly evident in mortgage lending), but remain well secured[(2)].

(2) *For discussion on what is considered well secured refer to page 44*

Financial performance of ongoing operations – movement on March 2006 half

Cash earnings increased 22.6% and return on average assets increased 6 basis points, driven by 10.1% income growth and a 3.1% reduction in expenses:

- Net interest income increased by $337 million or 14.4%:
  - Average interest earnings assets increased 14.7%, driven by strong business lending growth.
  - Average retail deposits grew 13.0% due to ongoing growth in online deposit products.
  - The net interest margin declined 1 basis point. Lending margin contraction due to competitive pressures and adverse deposit product mix were offset by favourable deposit margin trends.
- Other operating income declined $14 million or 1.6%. This was due to fair value and hedging revaluations being included in the Australia Region as part of the transfer of the bank's wholesale funding activities from Group Funding as well as customer migration towards lower fee products, offset by increases in fee income associated with lending volume growth.
- Operating expenses declined by $53 million or 3.1%. Incremental benefits from efficiency initiatives ($77 million) and restructuring ($33 million) offset higher personnel costs and increased investment expenditure. Lower depreciation on operating leases due to assets held for sale ($29 million) and non-recurrence of prior period reimbursements for customer over-charging issues further reduced expenses.

The charge to provide for doubtful debts increased $66 million, driven by strong growth in lending volumes and the impact of economic conditions on consumer segments (particularly New South Wales), reflecting a return towards more normal conditions compared to the benign credit environment experienced during the March 2006 half.

Wealth Management Australia

Performance Summary

	Half Year to			Fav/ (Unfav) Change on	
	Mar 07	Sep 06	Mar 06	Sep 06	Mar 06
	$m	$m	$m	%	%
Investments	**107**	88	80	21.6	33.8
Insurance	**76**	75	65	1.3	16.9
Cash earnings before IoRE	**183**	163	145	12.3	26.2
IoRE (after tax) [(1) (2)]	**21**	27	29	(22.2)	(27.6)
Cash earnings [(2)]	**204**	190	174	7.4	17.2

(1) *IoRE represents investment earnings on shareholders' retained profits and capital from life businesses net of capital funding costs.*
(2) *The impact of changes in the discount rate on policyholder liabilities has been excluded from cash earnings, as noted in the 'Non GAAP Financial Measures' section.*

Key Performance Measures

	As at		
	31 Mar 07	30 Sep 06	31 Mar 06
Full-time equivalent employees (FTEs)	**3,900**	3,952	3,995
Financial advisers (No.)			
Bank channels	**465**	484	476
Aligned channels	**831**	822	821

Financial performance – movement on September 2006 half

MLC has performed strongly in a favourable environment for investments and a competitive insurance market, with performance driven by:

- strong sales momentum with improved adviser productivity particularly in the bank channel;
- maintenance of favourable levels of attrition (investments) and lapses (insurance); and
- a reduction in expenses through the implementation of productivity and efficiency initiatives, reflected in lower staff numbers, as well as lower project expenditure.

This resulted in an increase in cash earnings before IoRE of $20 million or 12.3% on the prior half.

IoRE declined $6 million for the half. Increased earnings due to higher equity market returns were more than offset by higher interest costs associated with a full-period impact of capital funding initiatives implemented in the September 2006 half as the business continues to focus on capital efficiency.

Financial performance – movement on March 2006 half

Cash earnings before IoRE increased 26.2% on the March 2006 half, with strong performance from both the investments and insurance businesses.

The favourable operating environment ensured continuing solid income momentum and adviser numbers remained flat amidst a slight change in the financial adviser channel mix. Expenses growth was significantly less than the increase in levels of business activity.

IoRE declined $8 million due to interest costs associated with capital funding initiatives. Earnings from investment balances were at a similar level in the two periods.

Investments Performance Summary

	Half Year to			Fav/ (Unfav) Change on	
	Mar 07 $m	**Sep 06 $m**	**Mar 06 $m**	**Sep 06 %**	**Mar 06 %**
Gross income	**621**	574	547	8.2	13.5
Volume related expenses	**(208)**	(193)	(196)	(7.8)	(6.1)
Net income	**413**	381	351	8.4	17.7
Operating expenses	**(265)**	(275)	(245)	3.6	(8.2)
Profit before tax	**148**	106	106	39.6	39.6
Income tax expense	**(41)**	(18)	(26)	large	(57.7)
Cash earnings before IoRE	**107**	88	80	21.6	33.8

Investments Key Performance Measures

	Half Year to			Fav/ (Unfav) Change on	
	Mar 07	**Sep 06**	**Mar 06**	**Sep 06 %**	**Mar 06 %**
Average funds under management [1] ($bn)	**98.2**	92.3	87.3	6.4	12.5
Cost to average funds under management [1] (bps)	**54**	60	56		

[1] *Includes funds under management & administration.*

Market Share – Australia %	**Market Position (Rank)**	**As at 31 Dec 06**	**30 Jun 06**	**31 Dec 05**
Retail Funds (Ex Cash)	2	**12.5%**	12.4%	12.8%
Total Master Funds (Platforms)	1	**15.1%**	15.3%	16.2%
Total Wholesale Funds	1	**6.4%**	6.1%	6.5%

Source: Plan for Life Australian Retail & Wholesale Investments Market Share & Dynamics Report.

Funds Under Management and Administration	**Opening balance $m**	**Inflows $m**	**Outflows $m**	**Investment earnings $m**	**Other [1] $m**	**Closing balance $m**
Half Year ended 31 March 2007						
Master Funds (Platforms)	57,757	5,557	(3,997)	5,257	(676)	**63,898**
Other Retail	5,942	24	(492)	350	(286)	**5,538**
Total Retail Funds (Ex Cash)	63,699	5,581	(4,489)	5,607	(962)	**69,436**
Wholesale	22,259	1,286	(918)	1,410	-	**24,037**
Cash Management	3,868	6,961	(6,969)	112	(39)	**3,933**
Trustee	4,227	891	(121)	-	-	**4,997**
Total	94,053	14,719	(12,497)	7,129	(1,001)	**102,403**
Half Year ended 30 September 2006						
Master Funds (Platforms)	54,870	6,369	(3,935)	1,399	(946)	57,757
Other Retail	6,250	83	(388)	69	(72)	5,942
Total Retail Funds (Ex Cash)	61,120	6,452	(4,323)	1,468	(1,018)	63,699
Wholesale	21,353	2,163	(1,484)	227	-	22,259
Cash Management	3,725	7,123	(7,039)	97	(38)	3,868
Trustee	4,344	-	(117)	-	-	4,227
Total	90,542	15,738	(12,963)	1,792	(1,056)	94,053

Funds Under Management and Administration	Opening balance $m	Inflows $m	Outflows $m	Investment earnings $m	Other [1] $m	Closing balance $m
Half Year ended 31 March 2006						
Master Funds (Platforms)	49,417	4,359	(3,690)	5,256	(472)	54,870
Other Retail	6,701	70	(454)	488	(555)	6,250
Total Retail Funds (Ex Cash)	56,118	4,429	(4,144)	5,744	(1,027)	61,120
Wholesale	19,416	1,404	(1,811)	2,344	-	21,353
Cash Management	3,948	5,752	(6,029)	90	(36)	3,725
Trustee	4,673	-	(329)	-	-	4,344
Total	84,155	11,585	(12,313)	8,178	(1,063)	90,542

(1) *Other includes trust distributions and flows due to the sale/purchase of businesses.*

Investments financial performance – movement on September 2006 half

Investments cash earnings before IoRE grew by $19 million or 21.6%. Higher revenue from increased Funds Under Management & Administration (FUM) was supported by a decline in operating expenses. Key drivers of this result included:

- Gross income increased $47 million or 8.2%, as a result of:
  - Strong sales performance including ongoing cross-sell momentum through the Bank channel and continued low attrition rates drove favourable net funds flows (in excess of $2 billion in the seasonally lower of the two halves). Combined with strong investment earnings, this saw MLC surpass $100 billion in FUM.
  - The Retail Funds (Ex Cash) market share improved and the leading market share in both the Master Funds (Platforms) and Wholesale Funds segments was maintained. A slight loss of market share occurred in Total Master Funds (Platforms) following a reclassification by other market participants of their business from wholesale to retail.
  - The maintenance of margins despite competitive pressures.
- Volume related expenses include commission payments, investment costs and other FUM related costs. These increased $15 million or 7.8%, mainly due to commission impacts from higher FUM offset by lower sales, as well as one-off FUM related items in the September 2006 half.
- Operating expenses declined by $10 million or 3.6%, largely due to a $7m reduction in project expenditure. This has contributed to the 6 basis points reduction in the cost to FUM ratio.
- Income tax expense was $23 million higher than in the prior period, of which $14 million was due to the finalisation of prior years' tax returns in the September 2006 half.

Investments financial performance – movement on March 2006 half

Investments cash earnings before IoRE grew by $27 million or 33.8%, well in excess of FUM and revenue growth. Key drivers were:

- Gross income increased $74 million or 13.5% due to:
  - Strong sales performance and continued low attrition resulted in a $3 billion turnaround in net funds flows compared to the March 2006 half.
  - Higher average FUM over the period since March 2006.
- Volume related expenses increased $12 million or 6.1% due to higher commission payments from increased FUM and sales.
- Operating expenses were $20 million or 8.2% higher due to an $8m increase in project expenditure together with higher performance based remuneration. The reduction in the cost to FUM ratio was limited to 2 basis points.
- Income tax expense was $15 million higher, primarily driven by the increase in profit before tax.

Insurance Performance Summary

	Half Year to			Fav/ (Unfav) Change on	
	Mar 07 $m	**Sep 06 $m**	**Mar 06 $m**	**Sep 06 %**	**Mar 06 %**
Gross income	**419**	412	378	1.7	10.8
Volume related expenses	**(223)**	(213)	(186)	(4.7)	(19.9)
Net income	**196**	199	192	(1.5)	2.1
Operating expenses	**(92)**	(100)	(100)	8.0	8.0
Profit before tax	**104**	99	92	5.1	13.0
Income tax expense	**(28)**	(24)	(27)	(16.7)	(3.7)
Cash earnings before IoRE	**76**	75	65	1.3	16.9

Insurance Key Performance Measures

	Half Year to			Fav/ (Unfav) Change on	
	Mar 07	**Sep 06**	**Mar 06**	**Sep 06 %**	**Mar 06 %**
Average annual inforce premiums (Group & Retail) ($m)	**725.1**	685.4	648.3	5.8	11.8
Cost to average annual inforce premiums (%)	**25**	29	31		

Market Share – Australia %	**Market Position (Rank)**	**As at 31 Dec 06**	**30 Jun 06**	**31 Dec 05**
Retail risk insurance inforce	1	**15.0%**	15.0%	14.9%
New retail risk annual premiums	3	**12.4%**	12.4%	11.7%

Source: DEXX&R Life Analysis. Retail risk insurance includes term, trauma and disability insurance.

Annual Inforce Premiums	**Opening balance $m**	**Sales / New Business $m**	**Lapses & other movements $m**	**Closing balance $m**
Half Year ended 31 March 2007				
Retail	568.0	51.3	(18.6)	**600.7**
Group Risk	139.6	19.6	(17.4)	**141.8**
Total	707.6	70.9	36.0)	**742.5**
Half Year ended 30 September 2006				
Retail	537.1	50.3	(19.4)	568.0
Group Risk	126.1	36.5	(23.0)	139.6
Total	663.2	86.8	(42.4)	707.6
Half Year ended 31 March 2006				
Retail	508.1	44.3	(15.3)	537.1
Group Risk	125.3	12.6	(11.8)	126.1
Total	633.4	56.9	(27.1)	663.2

Insurance financial performance – movement on September 2006 half

Insurance cash earnings before IoRE increased 1.3% to $76 million while profit before tax increased by 5.1%. Key drivers of this result included:

- Gross income growth of $7 million or 1.7% was driven by:
  - The seasonal nature of premium revenue, with considerable Group business and some Retail business having annual renewal dates around 30 June, resulting in modest income growth compared to the growth in annual inforce premiums.
  - Increased Retail sales, assisted by the establishment of a dedicated team to support advisers together with favourable market reaction, including winning 3 industry awards, following enhancements made to the flagship risk product, Personal Protection Portfolio, in November 2006.
  - Continued strong Bank channel sales, accounting for over 40% of total individual insurance sales.
  - In addition to new business, continued favourable lapses resulted in average annual inforce premium growth of 5.8%.
  - Growth in the target market of Individual (Retail) Risk inforce resulted in market leading share being maintained. Market share in new retail risk annual premiums has remained constant at 12.4% as a result of growth in sales.
- Volume related expenses include commission payments, claims and adjustments from the stocktake valuation of life policy liabilities (based on actuarial reviews of actual data and experience assumptions). Given the quantum of liabilities involved and the nature of claims experience, these expenses will fluctuate from period to period. Volume related expenses increased $10 million or 4.7%, as a result of:
  - Satisfactory overall claims experience. Lump sum claims experience remained favourable and in line with the prior half. Disability income claims experience deteriorated relative to the prior half.
  - The half yearly process to recalibrate the policy liabilities was a favourable $6 million.
- Operating expenses declined $8 million or 8.0%, largely due to productivity and efficiency improvements enabling a reduction in business as usual expenses. Expenditure on product development was maintained whilst project costs associated with the deployment of regional infrastructure reduced. The resulting cost to premium ratio reduced from 29% to 25%.
- Income tax expense was $4 million higher due to higher profit before tax and the $6 million finalisation of prior years' tax returns in the prior half, partly offset by a lower tax adjustment in the current period.

Insurance financial performance – movement on March 2006 half

Insurance cash earnings before IoRE increased $11 million or 16.9%. Key drivers of this result included:

- Gross income growth of $41 million or 10.8%.
  - Average annual inforce premiums grew by 11.8% driven by strong sales growth and continued favourable lapse experience (although not as favourable as the prior period). Sales through the Bank channel were higher while sales through the Aligned channels were up by over 20%.
- Volume related expenses increased $37 million or 19.9%.
  - Increased claims from increased average annual inforce premium were offset by improved lump sum claims experience. Disability claims experience was consistent with the March 2006 half although unfavourable compared to long-term expectations.
  - Commissions increased due to higher retail sales and annual inforce premium.
  - The half yearly process to recalibrate the policy liabilities was unfavourable by $19 million.
- Operating expenses declined $8 million or 8.0%. Cost containment through productivity and efficiency initiatives drove a reduction in the cost to premium ratio from 31% to 25%.
- Income tax expense increased by $1 million after a tax adjustment in the current period partly offset the increase from pre tax profit growth.

Supplementary Performance Summary (includes ongoing and disposed operations - eg. includes Custom Fleet and MLC Asia)

Summary

	Half Year to			Fav/ (Unfav) Change on	
	Mar 07	Sep 06	Mar 06	Sep 06	Mar 06
Cash earnings	$m	$m	$m	%	%
Australian Banking	**1,194**	1,139	990	4.8	20.6
Wealth Management Australia before IoRE	**183**	163	145	12.3	26.2
Asia before IoRE	**-**	(4)	18	large	large
Cash earnings before IoRE	**1,377**	1,298	1,153	6.1	19.4
IoRE (after tax)	**21**	29	40	(27.6)	(47.5)
Cash earnings	**1,398**	1,327	1,193	5.4	17.2

Australian Banking

Performance Summary

	Half Year to			Fav/ (Unfav) Change on	
	Mar 07	Sep 06	Mar 06	Sep 06	Mar 06
	$m	$m	$m	%	%
Net interest income	**2,681**	2,490	2,315	7.7	15.8
Other operating income	**853**	1,007	1,082	(15.3)	(21.2)
Total income	**3,534**	3,497	3,397	1.1	4.0
Operating expenses	**(1,659)**	(1,709)	(1,875)	2.9	11.5
Underlying profit	**1,875**	1,788	1,522	4.9	23.2
Charge to provide for doubtful debts	**(181)**	(164)	(115)	(10.4)	(57.4)
Cash earnings before tax	**1,694**	1,624	1,407	4.3	20.4
Income tax expense	**(500)**	(485)	(417)	(3.1)	(19.9)
Cash earnings	**1,194**	1,139	990	4.8	20.6

UK REGION

Performance Summary – ongoing operations

	Half Year to			Fav / (Unfav) Change on	
	Mar 07	**Sep 06**	**Mar 06**	**Sep 06**	**Mar 06**
Australian dollars	**$m**	**$m**	**$m**	**%**	**%**
Net interest income	**996**	963	889	3.4	12.0
Other operating income	**508**	506	516	0.4	(1.6)
Total income	**1,504**	1,469	1,405	2.4	7.0
Operating expenses	**(892)**	(889)	(893)	(0.3)	0.1
Underlying profit	**612**	580	512	5.5	19.5
Charge to provide for doubtful debts	**(155)**	(155)	(152)	-	(2.0)
Cash earnings before tax	**457**	425	360	7.5	26.9
Income tax expense	**(133)**	(124)	(108)	(7.3)	(23.1)
Cash earnings	**324**	301	252	7.6	28.6

Pounds sterling	**£m**	**£m**	**£m**	**%**	**%**
Net interest income	**400**	392	377	2.0	6.1
Other operating income	**203**	205	219	(1.0)	(7.3)
Total income	**603**	597	596	1.0	1.2
Operating expenses	**(358)**	(360)	(379)	0.6	5.5
Underlying profit	**245**	237	217	3.4	12.9
Charge to provide for doubtful debts	**(62)**	(63)	(65)	1.6	4.6
Cash earnings before tax	**183**	174	152	5.2	20.4
Income tax expense	**(53)**	(51)	(46)	(3.9)	(15.2)
Cash earnings	**130**	123	106	5.7	22.6

Financial performance highlights

These results demonstrate that the UK business has real momentum, with further strong lending and retail deposits growth, firm cost control and a stabilisation in the bad and doubtful debt charge. The cost to income ratio continues to fall and the strategic agenda outlined in 2005 remains on track.

- Cash earnings were up 22.6% on the March 2006 half and 5.7% up on the September 2006 half.
- Return on average assets has remained stable (and improved on the March 2006 half) despite the move away from higher margin products such as personal unsecured loans and credit cards.
- At 58.6% the cost to income ratio improved by a further 90 basis points on the September 2006 half, and is down 630 basis points from 64.9% on a comparable basis in the September 2005 half.
- Cash earnings per average FTE increased 7% on the prior period and 26% on the March 2006 half. This was achieved in a period where there were over 300 FTE additions to customer facing positions; 225 of which were in Financial Solutions Centres. Elsewhere, improvements in back office efficiency have enabled growing volumes of business to be serviced by relatively stable staff numbers.
- There was excellent average volume growth across the business:
  - Business lending volumes increased 27.7% on the March 2006 half and 12.6% on the September 2006 half.
  - Mortgage volumes increased by 23.8% and 9.3% respectively.
  - Retail deposit volumes were up 20.2% on the March 2006 half and 10.4% on the September 2006 half.

Key Performance Measures – ongoing operations

	Half Year to			Fav/ (Unfav) Change on	
	Mar 07	Sep 06	Mar 06	Sep 06 %	Mar 06 %
Performance & profitability					
Return on average assets (annualised)	**0.95%**	0.95%	0.92%		
Cost to income ratio	**58.6%**	59.5%	62.7%		
Cash earnings per average FTE (annualised) (£'000)	**29**	27	23		
Net interest income					
Net interest margin	**3.16%**	3.41%	3.68%		
Net interest spread[(1)]	**2.83%**	3.17%	3.44%		
Average balance sheet (£bn)					
Gross loans and acceptances	**23.4**	21.7	19.5	7.8	20.0
Interest-earning assets	**25.4**	22.9	20.6	10.9	23.3
Retail deposits	**14.9**	13.5	12.4	10.4	20.2

[(1)] *The September 2006 and March 2006 half year net interest spreads have been restated upwards by 19 basis points and 40 basis points respectively to reflect a change to the treatment of intracompany liabilities. There has been no impact to Group net interest spreads. The impact for the September 2006 full year was a restatement upwards by 30 basis points to 3.30%.*

	As at		
	31 Mar 07	30 Sep 06	31 Mar 06
Full-time equivalent employees (FTE)	**9,046**	8,822	9,094
Asset quality			
Gross impaired assets (£m)	**87**	68	57
Gross loans and acceptances (£bn)	**24.7**	23.1	21.1
Gross impaired assets to gross loans and acceptances	**0.35%**	0.29%	0.27%
Specific provision to gross impaired assets	**15.6%**	15.0%	20.7%
Financial advisers (no.)	**174**	166	166
Funds under management (£m)	**1,357**	1,260	1,184

Business developments

- With the network of Financial Solutions Centres now reaching critical mass, the focus has been on growing the business by leveraging the investment made. More staff were recruited to meet business demand, an acquisition finance capability has been set up and the Clydesdale Bank private customer offering, which delivers enhanced relationship management, was re-launched during the period. The business performance continues to remain in line with the key financial metrics.
- Over the past two years there has been a programme to converge Yorkshire and Clydesdale onto a single integrated core banking platform covering branch teller and sales systems as well as a back-office product processing system. The benefits of Convergence are two fold: Firstly, the number of products is being reduced and there is the potential to deliver enhanced product features in the future. Secondly, to enable efficiency benefits of a single product platform to be achieved.
- By the end of 2006, the new teller system had been implemented in all Yorkshire branches and support areas, allowing legacy systems to be decommissioned. In April of this year, Clydesdale product processes and all supporting customer data were migrated to the new back-office platform and deployment of the new teller system is scheduled to be completed by the end of 2007.
- In addition to the investment in the technology infrastructure, a branch refurbishment programme has also commenced that will see the vast majority of branches benefiting from some improvement work over the next three years.
- The third party distribution channel continued to perform in line with expectations. The broker network maintained high lending quality, whilst the focus on offset mortgages helped increase customer penetration.
- Investment has continued in upgrading the two main Head Office locations, with the Glasgow upgrade now complete and Leeds well underway. This delivers a better work environment which fully utilises available space and is more energy efficient.

- Work to create two centres of excellence in back office processing in Clydebank (near Glasgow) and Leeds is nearing completion. Leeds now provides support to business lending, collection services and card service activities whilst Clydebank supports the branch back office. The concentration in two centres has helped to improve productivity.
- During the financial period, Clydesdale issued £200 million dated subordinated debt under the NAB Group US$75 billion Global Medium Term Note Programme. This brings Clydesdale Bank's total outstanding senior and subordinated notes to £1.8billion. Standard & Poors upgraded the credit rating of Clydesdale Bank to AA-, following a credit upgrade of NAB to AA.
- The Bank's contact centre in Glasgow was named 'World Contact Centre of the Year 2006' in the prestigious Contact Centre World Awards. It beat competition from more than 1,000 entrants.
- For the third year running Clydesdale Bank has been named the best mortgage lender in Scotland by Your Mortgage magazine. This success was followed up by Clydesdale and Yorkshire Bank being jointly awarded the best offset mortgage lender 2007.
- In the prestigious Forum of Private Business survey Clydesdale Bank was rated as the best Scottish Business Bank for the second time running while Yorkshire Bank climbed from second place to joint first for the UK as a whole.

Commitment to the community

- The Count Me In flagship community education programme expanded and won the Scottish Arts & Business Community Award in October.
- Support continued for the British Heart Foundation raising over £360,000 whilst the launch of Give As You Earn, the payroll giving programme, resulted in 5% staff participation and over £75,000 pledged to various charities. An employee volunteering policy, offering two days leave per annum, was launched in Yorkshire in February and extended to all employees in April.
- Key long-term sponsorship partnerships were strengthened through a four-year Clydesdale Bank investment in the Scottish Premier Football League of over £6.5 million, backing the bid for the 2014 Glasgow Commonwealth Games together with ongoing support of the Scottish Commonwealth Games Team.
- Supporting the transformation of the Leeds Grand Theatre and Opera North was recognised in the UK Arts & Business Brand Identity Awards.

Restructuring activity

The programme expenditure for the period included the further simplification and streamlining of back office functions and processes. The remaining provision balance at March 2007 was £16 million.

FTE reductions under the programme to date are 1,814 (exceeding the 1,700 target), including an additional 139 reduction during the first half of 2007.

Gross benefits delivered to date are £61 million with £11 million being delivered in the half.

Financial performance of ongoing operations (in local currency) – movement on September 2006 half

Cash earnings increased 5.7% (£7 million) on the prior half reflecting higher income, and flat expenses and charges to provide for doubtful debts.

- Net interest income increased 2.0% reflecting the growing momentum of the Financial Solutions Centres and third party distribution despite a managed rate contraction and competitive pressures impacting interest margins. Strong volume growth was partially offset by the effects of changing portfolio mix under the growth strategy which has moved the portfolio toward business lending and mortgages.
  - Average gross loans and acceptances increased 7.8% on the prior period. Business lending volumes grew by 12.6%. Growth is largely driven by the increasing maturity of the Financial Solutions Centres in the South of England and the completion of work to establish the fully integrated capability of the Financial Solutions Centres in the North. The continuing focus on mortgage lending, primarily through third party distribution, has resulted in a growth of mortgage volumes of 9.3%; comprising 7.7% from integrated Financial Solutions (which includes third party distribution) and 1.6% from the retail network. As predicted, credit card and personal loan balances declined by 1.3% over the half.
  - Average retail deposit volumes grew 10.4%. This was driven by the continued momentum in the Financial Solutions Centres, where average deposit growth in the half was up by 19.3%, and the establishment of an international offshore branch in Guernsey in 2006. These were supported by obtaining a Fitch rating which opened up opportunities in the local government and university sector and by pricing and new product development initiatives.

  - The net interest margin decreased 25 basis points from 3.41% to 3.16%. As planned within Lending, higher margin personal loans and credit cards have shown a decrease in balances while lower margin mortgage and business lending have shown strong growth. In addition, non-customer movements, including basis risk, have depressed the margin in the half.
- Other operating income has decreased by 1.0%. However, after adjusting for the impact of Danske Bank A/S transitional service income in the prior half (£14 million, offset by decreased expenses), underlying other operating income increased 6.3%. Other factors were:
  - increased profit share income from creditor insurance (£6 million) as this income is received in the first half of the year;
  - increased income from Tailored Business Loans subject to fair value revaluations of £7 million;
  - increased income from derivatives generated through management of interest rate risk positions on the balance sheet of £5 million;
  - incremental gain on sale of "Mastercard" shares of £3 million; offset by
  - decreased income from property disposals of £10 million.
- Operating expenses have decreased 0.6%. Underlying expenses after adjusting for the impact of Danske Bank A/S transitional service expense (£14 million, offset by decreased other operating income) have increased 3.5%. Other factors were:
  - the costs associated with the UK Growth Programme. These have increased by £16 million reflecting the recruitment and ongoing costs of staff in the Financial Solutions Centres (225 additional staff recruited in the half), additional and full year effect of property associated costs, and advertising and marketing costs;
  - other inflationary and indirect costs associated with growing a balance sheet (10.9% increase in average interest earning assets over the period) including variable back office processing and risk management costs, as well as annual salary increases. This was partially offset by:
  - £11 million of incremental savings from the restructuring initiatives provided for in March 2005; and
  - a decrease in investment spend, due to project delivery timing, of £11 million.
- The charge for doubtful debts remains broadly flat on the September 2006 half. Additional collective provision charges arising from the increase in business lending volumes has been offset by lower collective provisions in the personal loan and card portfolios as a result of improved arrears management, tightening of lending criteria and lower lending volumes. The specific provision charge has continued to be impacted by personal loan and credit card write-offs reflecting the deterioration experienced across the UK market.

The cost to income ratio at 58.6% improved by 90 basis points over the half year, reflecting the continued effects of the cost reduction programme.

Financial performance of ongoing operations (in local currency) – movement on March 2006 half

Cash earnings increased 22.6% (£24 million) on the March 2006 half reflecting higher income, lower expenses and slightly lower charges to provide for doubtful debts.

- Net interest income increased 6.1%. This reflects the significant growth of the Financial Solutions Centres and third party distribution network despite a managed rate contraction and competitive pressures impacting interest margins. Strong underlying volume growth was partially offset by the changing portfolio mix under the growth strategy toward business lending and mortgages.
  - Average gross loans and acceptances increased 20.0% on the March 2006 half. Business lending volumes grew by 27.7% with the increasing maturity of the Financial Solutions Centres in the South of England and the work done to establish the fully integrated capability of the Financial Solutions Centres in the North. Continued focus on mortgage lending, primarily through third party distribution, has resulted in growth of mortgage volumes of 23.8%; 20.4% from integrated Financial Solutions. Credit card and personal loan balances declined by 5.0% over the year as part of the ongoing strategic plan to reduce exposure in this area;
  - Average retail deposit volumes grew 20.2%. This was driven by the continued momentum in the Financial Solutions Centres and the establishment of an international offshore branch in Guernsey in 2006. These were supported by obtaining a Fitch rating which opened up opportunities in the local government and university sector, and by pricing and new product development initiatives.
  - The net interest margin decreased 52 basis points from 3.68% to 3.16%. Within Lending, higher margin personal loans and credit cards have shown a decrease in balances while lower margin mortgage and business lending have shown strong growth. In addition, non-customer movements, including basis risk, have depressed the margin in the period.
- Other operating income has decreased 7.3%. However, after adjusting for the impact of Danske Bank A/S transitional service income in the prior half (£22 million, offset by decreased operating expenses), underlying other operating income increased 3.0%. Other factors were:

  - increased income from Tailored Business Loans subject to fair value revaluations of £8 million;
  - increased income from derivatives generated through management of interest rate risk positions on the balance sheet of £6 million;
  - gain on sale of "Mastercard" shares of £6 million; partially offset by
  - sales proceeds of £6 million in the March 2006 half for the sale of the UK Discretionary Investment management business; and
  - a £9 million decrease in Wealth Management income. As a result of lower personal loan sales under the risk strategy and, in addition, as reflected elsewhere in the UK market, there were lower commissions for Payment Protection Insurance.
- Operating expenses have decreased 5.5%. Underlying expenses are flat after adjusting for Danske Bank A/S transitional service expense in the prior half (£22 million, offset by decreased other operating income). Other factors were:
  - £48 million of incremental savings in the current period from the restructuring initiatives provided for in the March 2005 half;
  - direct costs associated with the UK Growth Programme. These have increased by £32 million including the recruitment and ongoing costs of staff in the Financial Solutions Centres (233 additional staff recruited over the period), additional property associated costs, advertising and marketing costs and the full year effect of staff additions and property openings in the prior year; and
  - other inflationary and indirect costs associated with growing a balance sheet (23.3% increase in average interest earning assets over the period) including variable back office processing and risk management costs, as well as annual salary increases.
- The charge for doubtful debts is broadly flat on the March 2006 half. Additional collective provision charges arising from the increase in business lending volumes has been more than offset by lower collective provisions in the personal loan and card portfolios as a result of improved arrears management, tightening of lending criteria and lower lending volumes. The specific provision charge has continued to be impacted by personal loan and credit card write-offs reflecting the deterioration experienced across the UK market.

The cost to income ratio of the business improved by 410 basis points over the year, down to 58.6%.

Supplementary Performance Summary (includes ongoing and disposed operations - eg. includes Custom Fleet)

	Half Year to			Fav/ (Unfav) Change on	
	Mar 07	Sep 06	Mar 06	Sep 06	Mar 06
Australian dollars	$m	$m	$m	%	%
Net interest income	**996**	957	883	4.1	12.8
Other operating income	**508**	558	590	(9.0)	(13.9)
Total income	**1,504**	1,515	1,473	(0.7)	2.1
Operating expenses	**(892)**	(902)	(954)	1.1	6.5
Underlying profit	**612**	613	519	(0.2)	17.9
Charge to provide for doubtful debts	**(155)**	(156)	(152)	0.6	(2.0)
Cash earnings before tax	**457**	457	367	-	24.5
Income tax expense	**(133)**	(134)	(110)	0.7	(20.9)
Cash earnings	**324**	323	257	0.3	26.1

Pounds sterling	£m	£m	£m	%	%
Net interest income	**400**	390	374	2.6	7.0
Other operating income	**203**	227	250	(10.6)	(18.8)
Total income	**603**	617	624	(2.3)	(3.4)
Operating expenses	**(358)**	(365)	(405)	1.9	11.6
Underlying profit	**245**	252	219	(2.8)	11.9
Charge to provide for doubtful debts	**(62)**	(63)	(65)	1.6	4.6
Cash earnings before tax	**183**	189	154	(3.2)	18.8
Income tax expense	**(53)**	(56)	(46)	5.4	(15.2)
Cash earnings	**130**	133	108	(2.3)	20.4

NEW ZEALAND REGION

Summary – ongoing operations

	Half Year to			Fav/ (Unfav) Change on	
Cash earnings	**Mar 07 $m**	**Sep 06 $m**	**Mar 06 $m**	**Sep 06 %**	**Mar 06 %**
New Zealand Region before IoRE	**219**	185	162	18.4	35.2
IoRE (after tax)	**1**	1	2	-	(50.0)
Cash earnings	**220**	186	164	18.3	34.1

Performance Summary – ongoing operations

	Half Year to			Fav/ (Unfav) Change on	
Australian dollars	**Mar 07 $m**	**Sep 06 $m**	**Mar 06 $m**	**Sep 06 %**	**Mar 06 %**
Net interest income	**425**	382	415	11.3	2.4
Other operating income	**231**	214	162	7.9	42.6
Total income	**656**	596	577	10.1	13.7
Operating expenses	**(304)**	(290)	(313)	(4.8)	2.9
Underlying profit	**352**	306	264	15.0	33.3
Charge to provide for doubtful debts	**(24)**	(24)	(22)	-	(9.1)
Cash earnings before tax	**328**	282	242	16.3	35.5
Income tax expense	**(108)**	(96)	(78)	(12.5)	(38.5)
Cash earnings	**220**	186	164	18.3	34.1

New Zealand dollars	**NZ$m**	**NZ$m**	**NZ$m**	**%**	**%**
Net interest income	**483**	458	453	5.5	6.6
Other operating income	**263**	252	178	4.4	47.8
Total income	**746**	710	631	5.1	18.2
Operating expenses	**(346)**	(348)	(341)	0.6	(1.5)
Underlying profit	**400**	362	290	10.5	37.9
Charge to provide for doubtful debts	**(27)**	(28)	(25)	3.6	(8.0)
Cash earnings before tax	**373**	334	265	11.7	40.8
Income tax expense	**(123)**	(113)	(86)	(8.8)	(43.0)
Cash earnings	**250**	221	179	13.1	39.7

Financial performance highlights

A consistent strategy in a highly competitive banking market, combined with the introduction of a number of new and innovative products continues to position the New Zealand Region for the delivery of sustainable long term growth. Strong growth for the half year was underpinned by solid volume growth, sound asset quality and a focus on disciplined cost management.

Business developments

- Product innovation continues at the Bank of New Zealand (BNZ) with the launch in March 2007 of "Total Money", a new concept in banking for the New Zealand market. With Total Money, customers can either earn a better interest rate on all their accounts ('pooling'), or pay less interest on the variable portion of their home loan ('offsetting') while only paying a set fee of $10 for up to ten accounts;
- BNZ is the only main bank to supplement the protection of both customers' identity and money by providing an additional layer of security with "NetGuard" (2nd factor authentication) across all Internet Banking channels;
- "My Money" $5 monthly fee transaction account (launched October 2006) continues to be very popular with customers; and
- BNZ won two awards at the 2007 Sunday Star Times Cannex Banking Awards recognising the best value products in the sector. The "Ready Money Account" was named as the best high transaction account

and the "BNZ American Express Classic Everyday credit card" was named as the best credit card with rewards.

Commitment to the community

- 'Bank of New Zealand Get Organised Auckland' – New Zealand's biggest ever garage sale was held at the Auckland Show Grounds in late 2006 to raise funds for our new sponsorship arrangements with Preventing Violence in the Home (a leading violence prevention agency in New Zealand);
- Continuing with our aim of raising financial literacy, BNZ has sponsored the Chair of Finance at the University of Canterbury to add to our existing sponsorship of the Chair of Finance at the University of Auckland; and
- BNZ's principal charitable sponsorship, the Bank of New Zealand Save the Kiwi Trust – a collaboration between the Bank and the Department of Conservation, continues to make a significant contribution towards the preservation of the endangered national icon.

Restructuring Activity

- Bank of New Zealand's restructuring activities from the 2005 year are largely complete.

Key Performance Measures – ongoing operations

	Half Year to			Fav/ (Unfav) Change on	
	Mar 07	Sep 06	Mar 06	Sep 06 %	Mar 06 %
Performance & profitability					
Return on average assets (annualised)	**1.27%**	1.19%	1.02%		
Cost to income ratio	**46.4%**	49.0%	54.0%		
Cash earnings per average FTE (annualised) (NZ$'000)	**111**	98	80		
Net interest income					
Net interest margin	**2.51%**	2.51%	2.64%		
Net interest spread	**2.12%**	2.14%	2.30%		
Average balance sheet (NZ$bn)					
Gross loans and acceptances	**37.9**	35.9	33.7	5.6	12.5
Interest-earning assets	**38.7**	36.5	34.4	6.0	12.5
Retail deposits	**20.5**	19.6	18.8	4.6	9.0

	As at		
	31 Mar 07	30 Sep 06	31 Mar 06
Full-time equivalent employees (FTE)	**4,465**	4,505	4,510
Asset quality			
Gross impaired assets (NZ$m)	**86**	58	70
Gross loans and acceptances (NZ$bn)	**38.8**	36.8	34.6
Gross impaired assets to gross loans and acceptances	**0.22%**	0.16%	0.20%
Specific provision to gross impaired assets	**15.2%**	36.1%	32.8%
Market share (%) [(1)]			
Housing	**16.2**	16.3	16.2
Small Business [(2)]	**20.0**	20.0	20.0
Agribusiness	**18.3**	18.4	17.9
Cards	**29.2**	30.0	30.6
Retail deposits (personal & business)	**18.2**	17.9	18.0

(1) *Source RBNZ March 2007 (Registered Banks)*

(2) *Source TNS – Dec 2006 data for SME's (rolling 12 mth avg)*

Financial performance of ongoing operations (in local currency) – movement on September 2006 half

Cash earnings increased 13.1% on the September 2006 half.

Underlying profit increased 10.5% over the September 2006 half, reflecting strong volume growth, stable asset quality and a continued focus on cost management. This is a very satisfying outcome in an intensely competitive market as we continue to focus on our long term commitment to the overall customer proposition by offering innovative products and services which empower our customers to 'bank smarter'.

The key drivers of the result included:

- Net interest income grew 5.5% reflecting solid volume growth, while net interest margins remained stable.
- Whilst competition remains intense, the economic environment has remained buoyant with average lending volumes increasing 5.6% on the September 2006 half year. Housing volumes increased by 6.0%, business lending by 6.2% and retail deposits by 4.6%.
- Net interest margin remained flat with September 2006 at 2.51%. Retail Deposit margins have had the benefit from a 25bp increase in the Official Cash Rate during the current half offset by an increase in wholesale funding and lower margins on the lending book.
- Other operating income increased 4.4% on the September 2006 half. The increase is primarily driven by gains in the current half from the sale of "Mastercard" shares ($10m). Underlying customer fee growth was flat as the BNZ continues to introduce simplified fee structures with products such as 'My Money', a $5 flat fee transaction account.
- Hedge ineffectiveness and fair value movements contributed $62m to other operating income in the March 2007 half, compared to $65m in the September 2006 half. These gains are primarily attributable to hedge ineffectiveness stemming from fixed rate loans designated within 'micro' fair value hedge relationships.
- Operating expenses decreased 0.6% on the September 2006 half driven by the timing of personnel and compliance related project spend between the halves. Underlying costs have been kept flat with annual salary increases offset by on-going cost savings initiatives led by us applying the well ingrained disciplines of Six Sigma and Lean Manufacturing.
- The charge to provide for doubtful debts declined $1m. Overall credit conditions remain benign and asset quality sound. The ratio of gross impaired assets to gross loans and acceptances has increased 6 bps to 0.22% due to one exposure that became impaired during the period.

Financial performance of ongoing operations (in local currency) – movement on March 2006 half

Cash earnings increased 39.7% on the March 2006 half.

Underlying profit increased 37.9% over the March 2006 half driven by growth in net interest income and favourable hedge ineffectiveness and fair value movements, whilst maintaining sound asset quality and robust cost disciplines.

The key drivers of the result included:

- Net interest income grew 6.6% reflecting solid volume growth, offset by downward pressure on overall net interest margins.
- Average lending volumes increased 12.5% on the March 2006 half, with housing up 12.9% and business lending up 14.1% whilst retail deposits were up 9.0%. This solid volume performance is a good result in a market characterised by fierce competition as the Bank of New Zealand continues to focus on profitable market share.
- Net interest margin declined 13 basis points to 2.51% due to competitive pressures on lending margins combined with product and funding mix changes. Lending margins contributed 8 bps to the decline, mainly due to housing and credit cards.
- Other operating income increased 47.8% on the March 2006 half year. The main driver of the increase is a $74m net change between periods from hedge ineffectiveness and fair value movements combined with proceeds from the sale of "Mastercard" shares ($10m). Underlying customer fee growth was flat due to the focus on ensuring the customer proposition remains attractive by actively promoting lower cost channels to customers.
- Hedge ineffectiveness and fair value movements contributed $62m to other operating income in the March 2007 half, compared to a loss of $12m in the March 2006 half. This volatility is primarily attributable to hedge ineffectiveness stemming from fixed rate loans designated within 'micro' fair value hedge relationships.

- Operating expenses increased 1.5% on the March 2006 half as a result of the annual remuneration review, partially offset by efficiency gains from continued use across the organisation of the well established disciplines of Six Sigma and Lean Manufacturing.
- The charge to provide for doubtful debts increased $2m on the March 2006 half. Overall asset quality remains sound with the ratio of gross impaired assets to gross loans and acceptances up 2 bps to 0.22%.

Supplementary Performance Summary (includes ongoing and disposed operations - eg. includes Custom Fleet)

Summary

Cash earnings	Half Year to Mar 07 $m	Sep 06 $m	Mar 06 $m	Fav/ (Unfav) Change on Sep 06 %	Mar 06 %
New Zealand Region before IoRE	**219**	208	165	5.3	32.7
IoRE (after tax)	**1**	1	2	-	(50.0)
Cash earnings	**220**	209	167	5.3	31.7

Performance Summary

Australian dollars	Half Year to Mar 07 $m	Sep 06 $m	Mar 06 $m	Fav/ (Unfav) Change on Sep 06 %	Mar 06 %
Net interest income	**425**	374	401	13.6	6.0
Other operating income	**231**	263	249	(12.2)	(7.2)
Total income	**656**	637	650	3.0	0.9
Operating expenses	**(304)**	(297)	(381)	(2.4)	20.2
Underlying profit	**352**	340	269	3.5	30.9
Charge to provide for doubtful debts	**(24)**	(24)	(22)	-	(9.1)
Cash earnings before tax	**328**	316	247	3.8	32.8
Income tax expense	**(108)**	(107)	(80)	(0.9)	(35.0)
Cash earnings	**220**	209	167	5.3	31.7

New Zealand dollars	NZ$m	NZ$m	NZ$m	%	%
Net interest income	**483**	448	438	7.8	10.3
Other operating income	**263**	312	273	(15.7)	(3.7)
Total income	**746**	760	711	(1.8)	4.9
Operating expenses	**(346)**	(359)	(415)	3.6	16.6
Underlying profit	**400**	401	296	(0.2)	35.1
Charge to provide for doubtful debts	**(27)**	(28)	(25)	3.6	(8.0)
Cash earnings before tax	**373**	373	271	-	37.6
Income tax expense	**(123)**	(126)	(88)	2.4	(39.8)
Cash earnings	**250**	247	183	1.2	36.6

nabCapital

nabCapital is a global division with its key lines of business comprising Institutional Banking, Corporate Finance, Global Markets and Structuring and Investments. It includes three core regions of Australia (including Americas and Asia), New Zealand and the United Kingdom.

Performance Summary

	Half Year to		Fav / (Unfav) Change on	
	Mar 07	Sep 06	Sep 06	Sep 06
	$m	$m		Ex FX[(1)]
			%	%
Net interest income	**533**	503	6.0	5.8
Other operating income	**321**	285	12.6	10.9
Total income	**854**	788	8.4	7.6
Operating expenses	**(390)**	(399)	2.3	2.5
Underlying profit	**464**	389	19.3	18.0
(Charge) / Write-back to provide for doubtful debts	**(33)**	7	large	large
Cash earnings before tax	**431**	396	8.8	7.8
Income tax expense	**(88)**	(64)	(37.5)	(34.4)
Cash earnings	**343**	332	3.3	2.7

	Half Year to		Fav / (Unfav) Change on	
	Mar 07	Mar 06	Mar 06	Mar 06
				Ex FX[(1)]
	$m	$m	%	%
Net interest income	**533**	434	22.8	22.6
Other operating income	**321**	294	9.2	8.2
Total income	**854**	728	17.3	16.8
Operating expenses	**(390)**	(366)	(6.6)	(6.3)
Underlying profit	**464**	362	28.2	27.3
(Charge) / Write-back to provide for doubtful debts	**(33)**	17	large	large
Cash earnings before tax	**431**	379	13.7	13.2
Income tax expense	**(88)**	(93)	5.4	6.5
Cash earnings	**343**	286	19.9	19.6

(1) *Change expressed at constant exchange rates.*

Financial performance highlights

nabCapital continues to show strong performance in the March 2007 half, with underlying profit increasing 19.3% on the September 2006 half year. It did so by maintaining a clear focus on developing sustainable income streams and driving efficiency improvements. However, cash earnings increased 3.3% on the September 2006 half year as the charge for bad and doubtful debts returned to more typical levels.

Business developments

nabCapital's originate-warehouse-distribute (OWD) operating model provides the framework for the key activities driving nabCapital's solid performance. Using a distribution-led origination approach, nabCapital is developing a broader and more sophisticated product suite by creating opportunities for borrower and investor clients. It repackages those products to match varying levels of risk appetite among investors, and subsequently makes investment opportunities available to the bank's customers and other investors through an expanding global distribution network.

Against this backdrop, nabCapital benefited from:

- the ongoing acceleration of new business initiatives including Acquisition Leveraged Finance in the UK and Securitisation in the US;
- improved momentum across key product lines, including increased origination in Corporate Finance in Australia and the UK;
- targeted capital growth in Corporate Finance and Institutional Banking;
- continuing to develop our global distribution capability; and
- the continued management and optimisation of capital.

An ongoing commitment to delivering effective capital markets solutions for its clients saw nabCapital receive a string of awards from industry research houses and journals, as announced during the March 2007 half-year. These included:

- Bond House of the Year 2006 – Insto (fourth consecutive year)
- Best Leveraged Financing Deal for Myer – Asiamoney
- Best Local Bond House 2006 (Finance Asia)
- Number one Lead Arranger for Australasian Project Finance Loans 2006 – Dealogic
- Number one Underwriter for A$ Bonds 2006 – Thomson Financial

nabCapital was involved in a number of notable transactions for the March 2007 half, including arranging and underwriting Origin Energy's A$1.2 billion acquisition of Queensland energy retailer, Sun Retail. In addition, nabCapital was joint lead arranger and underwriter for the ConnectEast project, equity arranger for the Domain SEQ Growth Fund and Pengana European Property Trust, and Sole Lead Manager to Sumitomo Mitsui Banking Corporation (Sydney branch) for a three-year floating rate issue.

nabCapital is supporting its strategic agenda with a series of cultural transformation initiatives aimed at fostering a more collaborative, accountable and innovative workforce. This includes leadership development programs for its high potential employees and future leaders, supported by the forthcoming roll-out of a leadership behaviours model aimed at fostering the attitudes and behavioural attributes among employees that will underpin the successful execution of nabCapital's strategic agenda for the long term.

nabCapital is also continuing its investment in the ongoing development of the business through the Strategic Investment Program which, over a three-year period, will deliver key technology initiatives to improve product capability, simplicity, flexibility and the cost effectiveness of the business and technology platforms. This program continues to be on track.

Commitment to the community

nabCapital's community activity included both industry wide programs and support for employee led initiatives. Across the business nabCapital has encouraged and supported team-based and individual employee activities. The establishment of nabCapital's Carbon Solutions Group aims to help National Australia Bank clients identify and address issues and opportunities relating to carbon emissions trading and pricing frameworks.

Restructuring activity

The restructuring programme remains on track for nabCapital. The program included initiatives to rebase the Asian and Americas operations, improve operational efficiency and replace the Markets technology platform through the Strategic Investment Program. FTE redundancies under the program to date are 300 including an additional 39 redundancies in the six months to 31 March 2007. The remaining provision balance at March 2007 is $41 million. Total gross benefits of $54 million have been realised from the restructuring program since 2005. This represents an increase of $3 million in the March 2007 half year.

Key Performance Measures

	Half Year to			Fav/ (Unfav) Change on	
	Mar 07	Sep 06	Mar 06	Sep 06 %	Mar 06 %
Performance & profitability					
Return on average Risk Weighted Assets [1] (annualised)	**1.14%**	1.14%	0.89%		
Return on average assets (annualised)	**0.43%**	0.43%	0.37%		
Return on average external assets (annualised)	**0.55%**	0.55%	0.49%		
Cost to income ratio	**45.7%**	50.6%	50.3%		
Cash earnings per average FTE (annualised) ($'000)	**319**	331	301		
Net interest income					
Net interest margin	**0.74%**	0.71%	0.64%		
Average balance sheet ($bn)					
Core lending [2]	**40.0**	38.4	37.2	4.2	7.5
Gross loans and acceptances [3]	**42.8**	41.7	41.7	2.6	2.6
Interest-earning assets – external	**107.4**	106.4	97.1	0.9	10.6
Interest-earning assets – internal [4]	**37.9**	34.3	38.5	10.5	(1.6)
Interest-earning assets - total	**145.3**	140.7	135.6	3.3	7.2

	As at			Fav/ (Unfav) Change on	
	31 Mar 07	30 Sep 06	31 Mar 06	Mar 06 %	Sep 05 %
Spot Balance sheet ($bn)					
Risk weighted assets [1]	**62.2**	58.1	58.8	7.1	5.8
Full-time equivalent employees (FTE)	**2,188**	2,075	1,944		
Asset quality					
Gross impaired assets ($m)	**98**	289	331		
Gross loans and acceptances ($bn)	**43.8**	41.7	41.1		
Gross impaired assets to gross loans and acceptances	**0.22%**	0.69%	0.81%		
Specific provision to gross impaired assets	**61.7%**	20.9%	31.7%		

(1) *Risk Weighted Assets are calculated on internal model rather than standard model.*

(2) *Core lending includes loans and advances at amortised cost and at fair value.*

(3) *Gross loans and acceptances represents core lending and bill acceptances.*

(4) *Internal interest-earning assets include short-term funding of the Group's operations.*

Financial performance – movement on September 2006 half

While cash earnings of $343 million increased 3.3% on the September 2006 half, underlying profit was up 19.3%, due to a combination of strong income growth and reduced expenses.

Underlying profit increased by $75m (19.3%) on the September 2006 half year as a result of:

- Total income being $66m (8.4%) higher than the September 2006 half year, with net interest income up by 6.0% and other operating income up 12.6%. The quantum and mix of net interest income and other operating income can vary between periods depending on the nature of deals executed and the Group's short term funding requirements.
- Overall the increase in income was driven by:
  - the growth in higher yielding businesses, particularly in Corporate Finance;
  - the sale of a large Project Finance exposure that was classified as non performing in 2004; partially offset by
  - a large Structured Finance transaction in the September 2006 half.
- Operating expenses decreased by 2.3%, mainly due to a reduction in deal and project related legal and consulting costs and lower recharges. This was partially offset by an increase in personnel costs, including higher incentive payments in line with the improved performance of the business and higher FTEs to support revenue growth and the development of the Strategic Investment Program.

The cost to income ratio improved 490 basis points to 45.7% at March 2007 from increased revenue mainly from the continued expansion of our businesses and cost management. The cash earnings per average FTE has reduced by 3.6%. However, after excluding the impact of the abnormally low levels of Bad & Doubtful Debts in the September 2006 half, cash earnings per average FTE increased 5.3%.

The charge for bad and doubtful debts in the March 2007 half is primarily due to increased exposures, while the write-back in the September 2006 half was mainly due to recoveries on facilities that had been provided for in prior periods.

The increase in the effective tax rate for the March 2007 half is mainly due to a lower contribution from Structured Finance transactions.

The return on average risk weighted assets was in line with the September 2006 half notwithstanding the higher charge for bad and doubtful debts. The increase in our spot risk weighted assets was largely driven by the growth in Corporate Finance, mainly in the UK, and Institutional Banking across most regions.

The increase in net interest margin of 3 basis points was mainly driven by the growth in Corporate Finance, partially offset by a reduction in Markets interest income due to a reduced level of short term funding requirements by the Group.

Average external interest earning assets increased by $1.0 billion (0.9%) primarily as a result of origination activity partially offset by reduced Markets assets. The return on average external assets was flat at 0.55%, with increased cash earnings matched by asset growth.

Asset quality remains strong with 91.9% of exposures assessed as investment grade equivalent (AAA to BBB-) at March 2007. The level of gross impaired assets has reduced by $191 million mainly due to the sale of a large Project Finance asset that was classified as non performing in September 2004. This is also a key factor impacting the level of specific provision to gross impaired assets, which has increased from 20.9% at September 2006 to 61.7% at March 2007, and the movement in gross impaired assets to gross loans and acceptances, which reduced from 0.69% at September 2006 to 0.22% at March 2007.

Financial performance – movement on March 2006 half

Cash earnings increased by 19.9% on the March 2006 half reflecting the successful implementation of initiatives introduced to grow income streams, improve efficiency and enhance return on equity.

Underlying profit increased 28.2% on the March 2006 half as a result of the following factors:

- Total income increased by $126m on the March 2006 half (17.3% higher). The key movements were due to:
  - increased net interest income mainly from origination activity in Corporate Finance; and
  - higher other operating income mainly due to the profit on sale of a large Project Finance asset that was classified as non performing and improved fee income in line with increased deal flow in both our higher yielding origination and distribution businesses. This was partially offset by higher hedging costs arising from our capital management activity in the March 2007 half and gains on sale of assets exited in the March 2006 half as part of the strategy to reduce low yielding assets.

- Operating expenses have increased 6.6% on the March 2006 half. This was largely due to higher personnel costs, including increased incentive payments in line with improved business performance, the impact of EBA increases and higher FTEs. The growth in FTEs was to support revenue generating businesses, the enhancement of the control framework and the investment in the Strategic Investment Program. The increase in personnel costs was partially offset by a reduction in recharges.

Cost to income ratio has improved 460 basis points to 45.7% at March 2007, mainly due to strong growth in revenue. This has also been a key contributor to the improvement in the cash earnings per average FTE which has increased by 6.0%.

The charge for Bad & Doubtful Debts for the March 2007 half was largely due to increased exposures compared to a write-back in the March 2006 half driven by the strategy to exit low yielding assets to improve return on equity.

The return on average risk weighted has increased 25 basis points to 1.14% (from 0.89% in March 2006), driven by higher cash earnings and active capital management. The increase in spot risk weighted assets is mainly from increased Corporate Finance activity.

Average external interest-earning assets increased by $10.3 billion on the March 2006 half. The increase was driven by strong origination activity in Corporate Finance and Institutional Banking and increased assets in the Markets business to support revenue growth. The return on average external assets improved 6 basis points to 0.55% mainly due to the robust cash earnings growth for the March 2007 half.

The net interest margin improved 10 basis points mainly due to increased lending to counterparties in Corporate Finance.

Asset quality remains strong with 91.9% of exposures assessed as investment grade equivalent (AAA to BBB-) at March 2007. The level of gross impaired assets has reduced by $233 million mainly due to the sale of a large Project Finance transaction that was classified as non performing in September 2004. This is also a key factor driving the improvement in the level of specific provisions to gross impaired assets and gross impaired assets to gross loans and acceptances.

OTHER (GROUP FUNDING & CORPORATE CENTRE)

Performance Summary

Cash Earnings	Half Year to			Fav/ (Unfav) Change on	
	Mar 07 $m	Sep 06 $m	Mar 06 $m	Sep 06 %	Mar 06 %
Group Funding	**79**	83	86	(4.8)	(8.1)
Corporate Centre	**(31)**	(20)	(22)	(55.0)	(40.9)
Other	**48**	63	64	(23.8)	(25.0)

Group Funding

Group Funding acts as the central vehicle for movements of capital and structural funding to support the Group's operations. This ensures divisional results are not affected by factors related to Group operations and enhances the comparability of divisional performance over time.

Group Funding recorded a surplus for the March 2007 half year of $79 million.

Financial performance – movement on September 2006 half

Compared to the Group Funding surplus of $83 million in the September 2006 half year, the $4 million decrease is primarily due to:

- Increased capital returns due to the increase in Tier 1 capital reserves; offset by
- Losses from fair valuing of hedges of future cash flows within the Group.

Corporate Centre

Financial performance – movement on September 2006 half

The $11 million increase in Corporate Centre deficit is primarily due to a reallocation of support areas between the regions and Corporate Centre.