

# Australian Region Market Update

## March 07 Results

Ahmed Fahour, Executive Director & CEO Australia  
Ewen Stafford, Chief Financial Officer, Australia

May 2007



# Contents

---

> Summary of March 2007 financial results

> Update on key strategies

- Re-ignite the organisation
  - People, Customer and Community
- Become cost competitive
  - While still investing in the business

> Manage the business

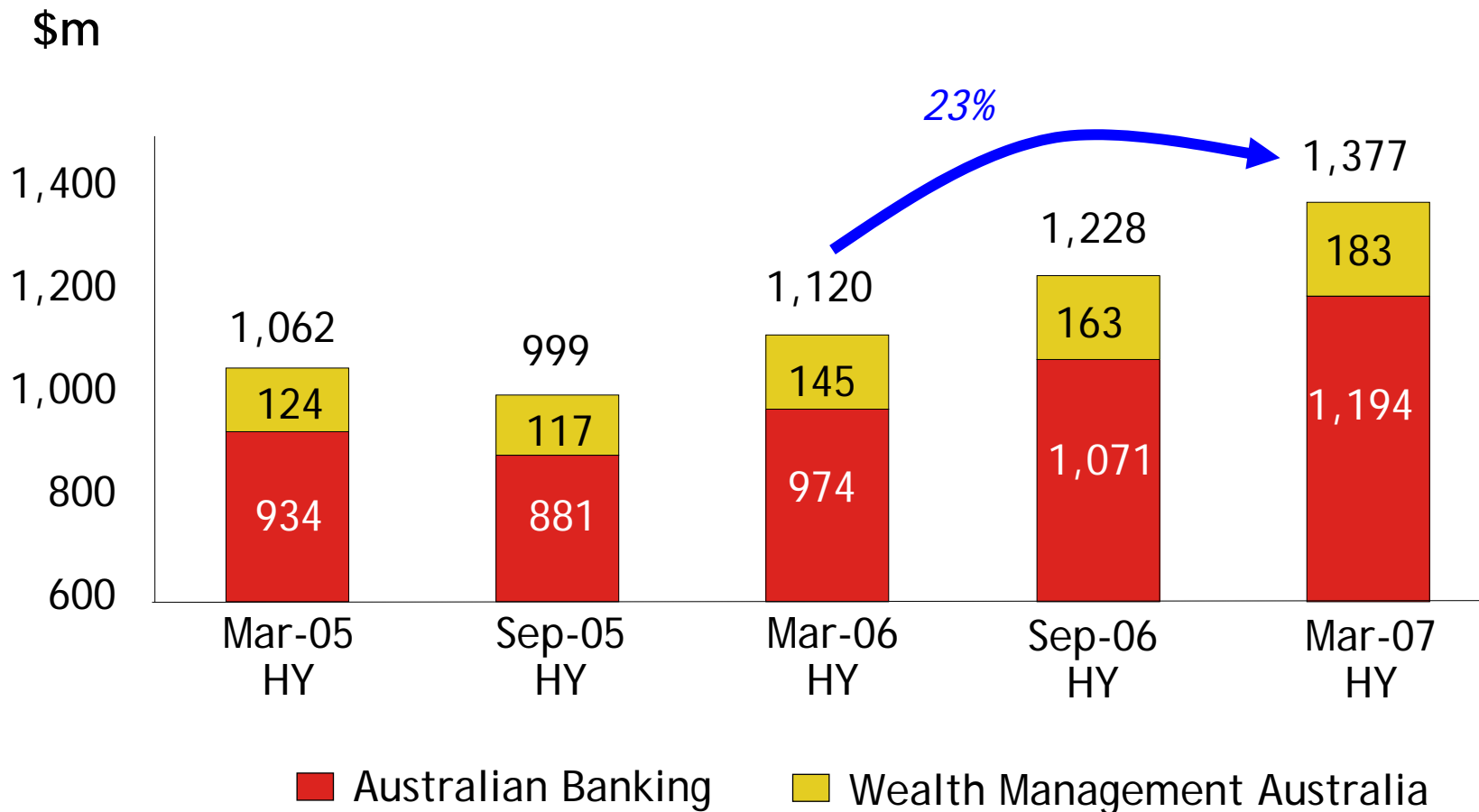
- Australian Banking
- Wealth Management Australia

> Economic perspective

# Australian Region Results up 23% on pcp

## Australian Region Half Yearly Cash Earnings (pre IoRE)\*

(\$ millions)



Source: Internal. \* Ongoing basis, Total Australian Region includes Asia

<sup>2</sup> Wealth Management 2005 numbers adjusted for transitional tax and AIFRS

# Australian Region ongoing Cash Earnings\* up 22.9% on prior corresponding period

	Mar-07 HY \$m	Sep-06 HY \$m	Mar-06 HY \$m	% changes on Sep-06 HY      Mar-06 HY	
Australian Banking Total Income	3,534	3,373	3,211	4.8	10.1
Wealth Net Income	609	580	543	5.0	12.2
<b>Total Income</b>	<b>4,143</b>	<b>3,953</b>	<b>3,754</b>	<b>4.8</b>	<b>10.4</b>
Operating Expenses	(2,016)	(2,057)	(2,057)	2.0	2.0
Banking	(1,659)	(1,682)	(1,712)	1.4	3.1
Wealth Management	(357)	(375)	(345)	4.8	(3.5)
<b>Underlying Profit</b>	<b>2,127</b>	<b>1,896</b>	<b>1,697</b>	<b>12.2</b>	<b>25.3</b>
Charge to provide for Doubtful Debts	(181)	(164)	(115)	(10.4)	(57.4)
Asia (before IoRE)	-	(6)	1	large	large
<b>Cash Earnings before IoRE</b>	<b>1,377</b>	<b>1,228</b>	<b>1,120</b>	<b>12.1</b>	<b>22.9</b>
IoRE (after tax)	21	27	29	(22.2)	(27.6)
<b>Cash Earnings</b>	<b>1,398</b>	<b>1,255</b>	<b>1,149</b>	<b>11.4</b>	<b>21.7</b>

Source: Internal, ongoing basis. \* Pre IoRE

# Contents

---

> Summary of March 2007 financial results

> Update on key strategies

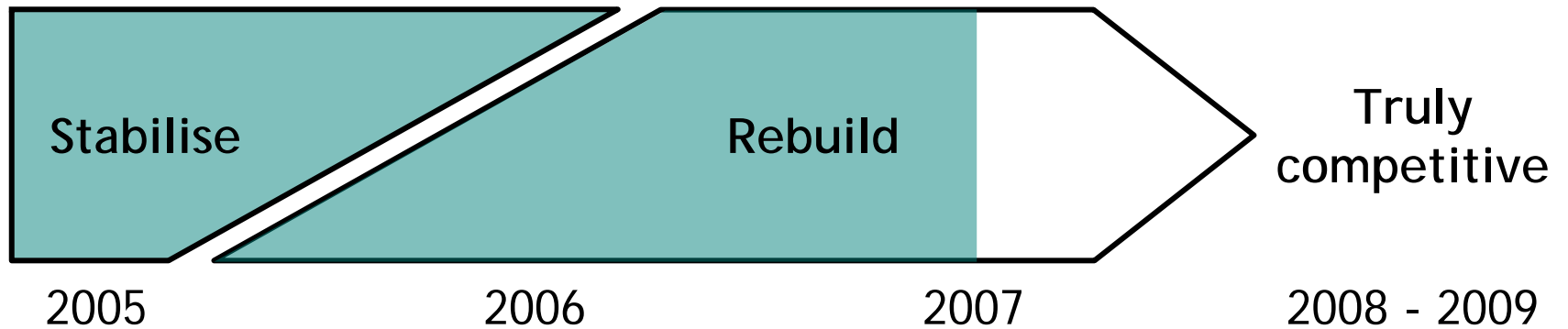
- Re-ignite the organisation
  - People, Customer and Community
- Become cost competitive
  - While still investing in the business

> Manage the business

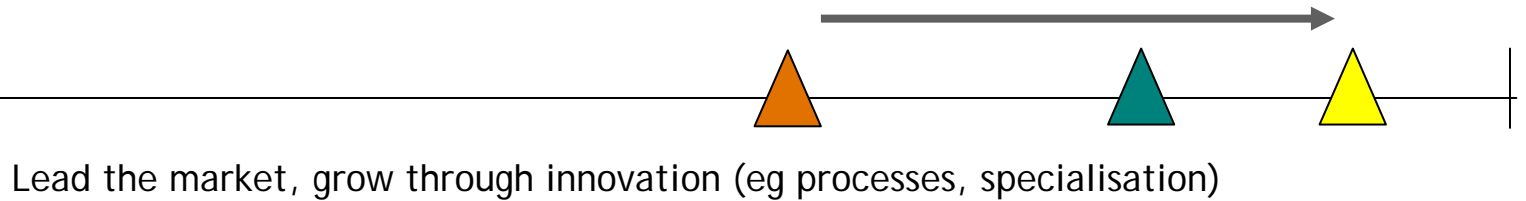
- Australian Banking
- Wealth Management Australia

> Economic perspective

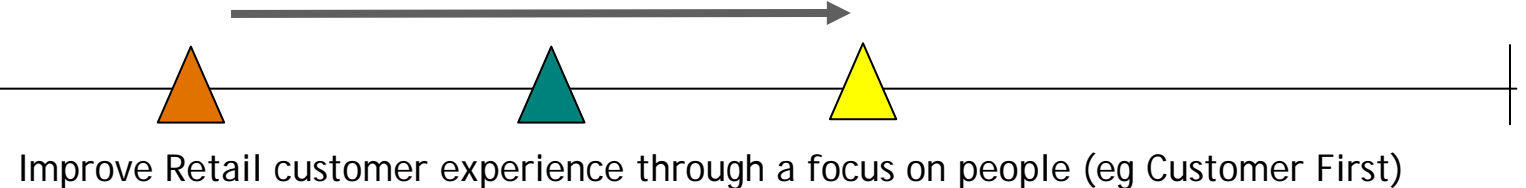
# Rebuild is advancing towards truly competitive



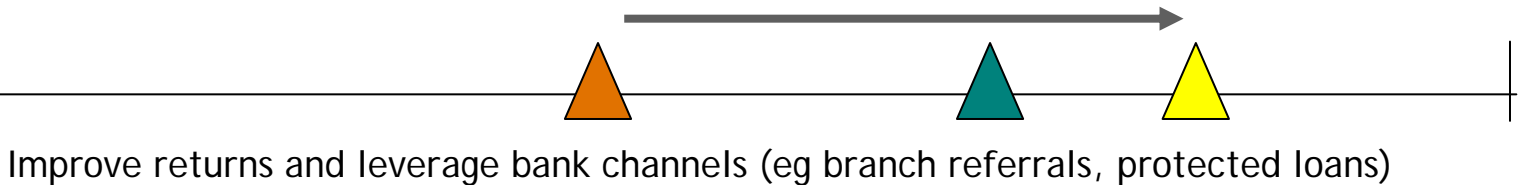
Business & Private



Retail



Wealth



# Contents

---

- > Summary of March 2007 financial results
  
- > Update on key strategies
  - Re-ignite the organisation
    - People, Customer and Community
  - Become cost competitive
    - While still investing in the business
  
- > Manage the business
  - Australian Banking
  - Wealth Management Australia
  
- > Economic perspective

# Re-ignite the organisation — sustained focus

---

## Continued investment in brand and reputation

- > Rallying staff around brand purpose - 'We help our customers to fulfil their aspirations'
- > Continued roll-out of visual identity (star nab) - Completed re-branding of over 300 branches
- > Focus on improving the customer service experience
- > Continued marketing presence and sponsorships (AFL, Australian Ballet)
- > Earned an 'Employer of Choice for Women' citation from the Federal Government's Equal Opportunity for Women in the Workplace Agency
- > Community trust improved - Edelman Trust Index up 8% on 2005

## Progressing people investment and culture

- > Development of an integrated Human Capital Strategy designed to attract and develop the people we need to become a truly great organisation by creating a distinctive NAB experience based around:
  - > A people framework that emphasises customer facing careers, rewards performance and provides choice
  - > A focus on capability to enable our people to deliver to our customers

# Re-ignite the organisation focuses on our brand purpose delivered through our people to our customers

---

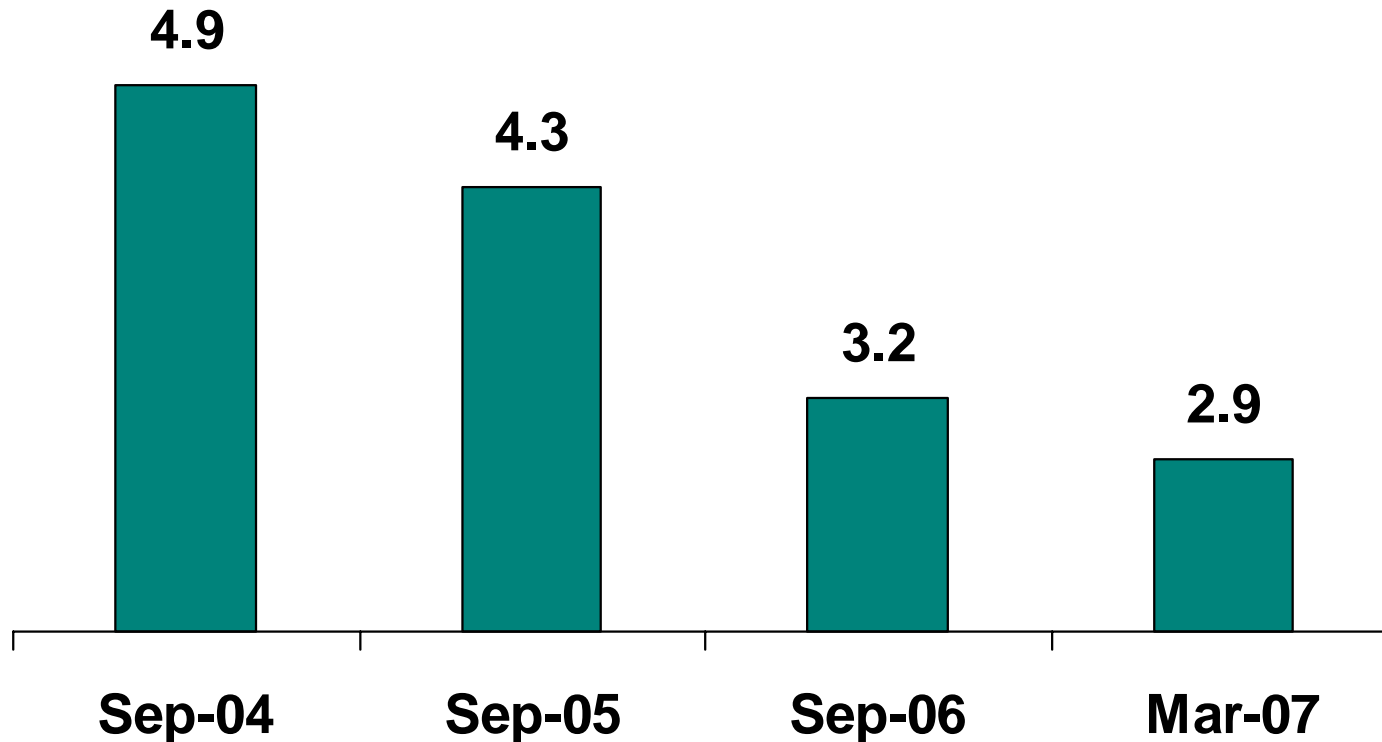


# LTIFR an important indicator of the culture

---

Australian Region LTIFR\*

---



Source: Internal

\* Rolling 12 month LTIFR – Lost Time Injury Frequency Rate

# Improvements in Customer Satisfaction

---

Retail \*



From 65.7% (10/04) to 70.4% (03/07)

Business \*\*



From 74.3% (10/04) to 78.5% (03/07)

Wealth ^



From 66.8% (02/06) to 75.7% (03/07)

Source

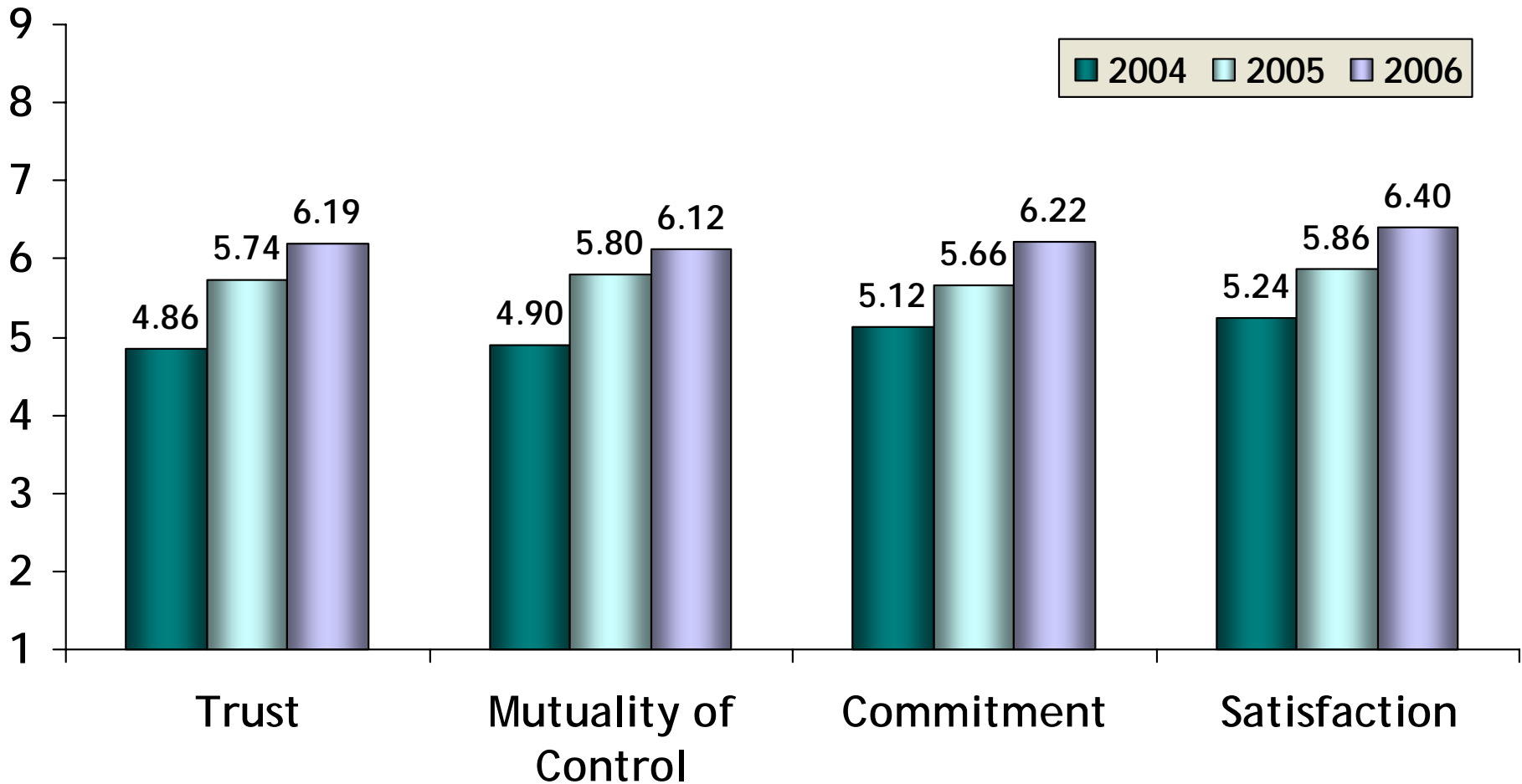
\* Roy Morgan Research, Base: Aust MFI Pop'n 14+, 6 month moving average. Satisfaction is based on customers who answered very or fairly satisfied.

Internal - \*\* BPA Service Experience Research Program. ^ Wealth Advisor satisfaction survey.

---

# Broader community trust also improved

Edelman Relationship Index\*



Note: \*Measures quality of relationship between the NAB and various stakeholders (Civil Society, Government, Media, Regulators, Opinion Leaders).

Scores of 7 - 9 indicate "Strong and very health relationship and reputation with stakeholders"

Source: Marketing & Research Associates, 2006

# Awards

---

## Bank of the Year



## Wealth



MLC wins at 2007 Asset Innovation Awards

- Best Income Protection Product with Income Protection Plus
- Best Margin Lending Product for National Margin Lending
- Best Platform for Self-Managed
- Superannuation for MasterKey Custom

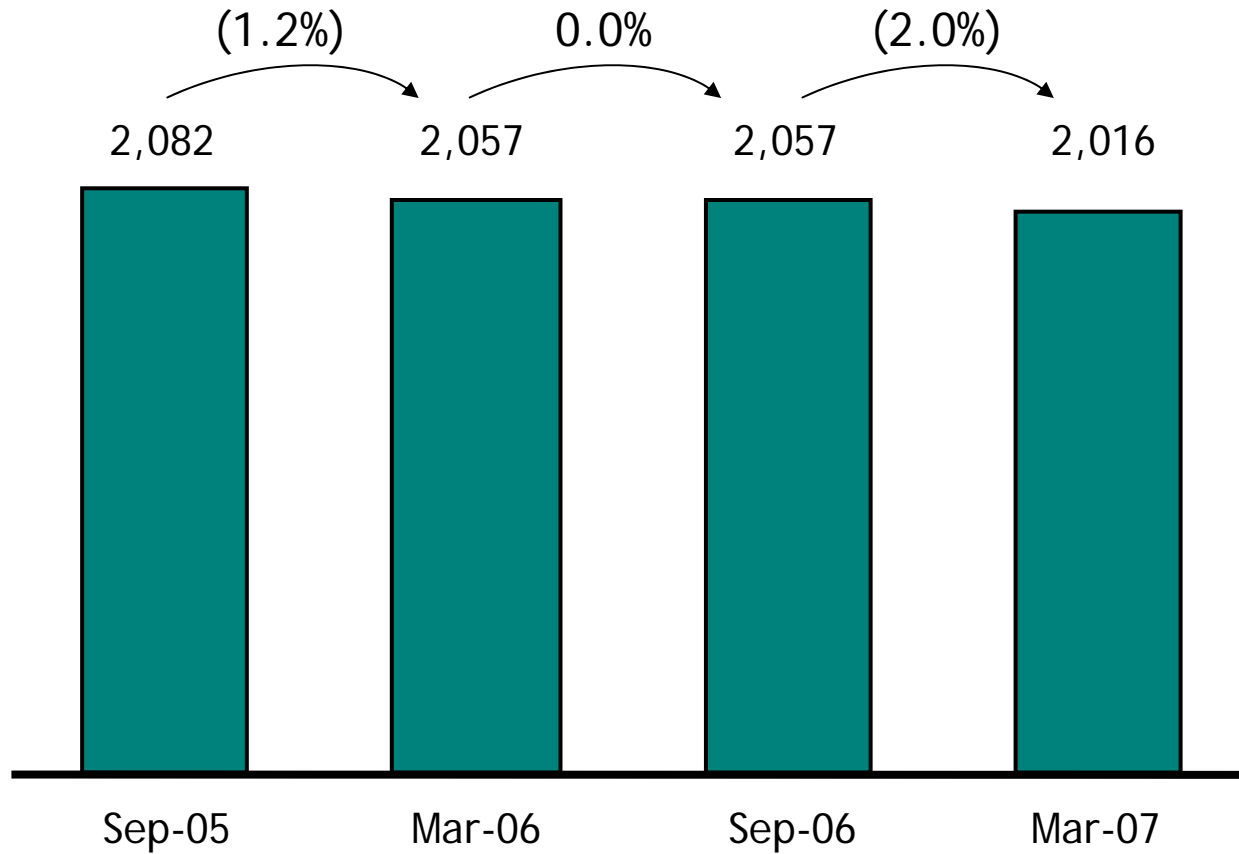
# Contents

---

- > Summary of March 2007 financial results
  
- > Update on key strategies
  - Re-ignite the organisation
    - People, Customer and Community
  - Become cost competitive
    - While still investing in the business
  
- > Manage the business
  - Australian Banking
  - Wealth Management Australia
  
- > Economic perspective

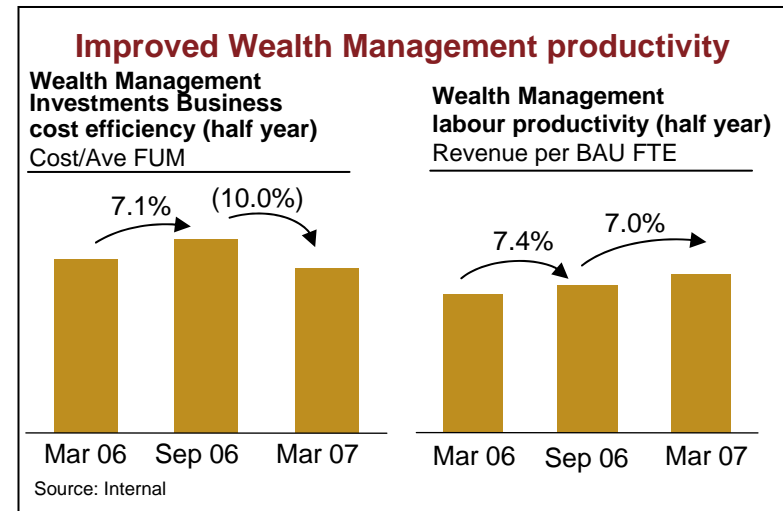
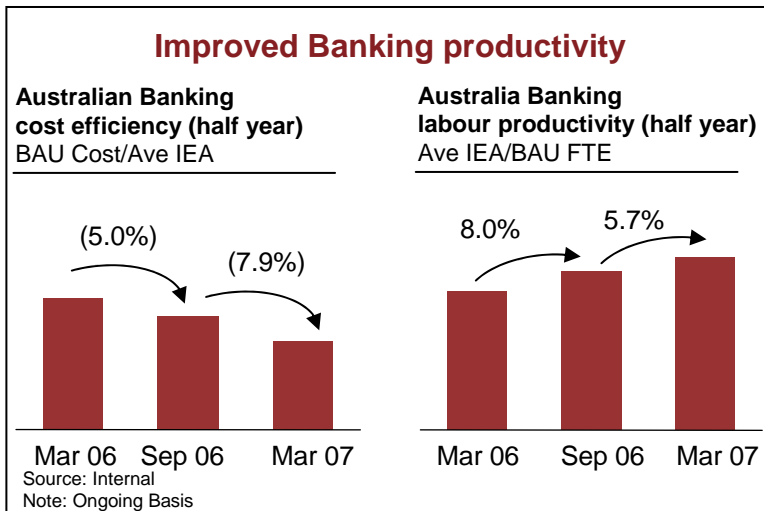
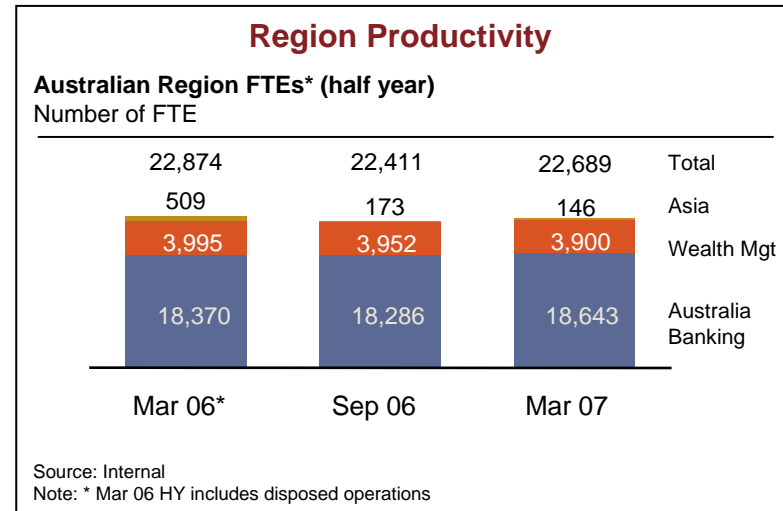
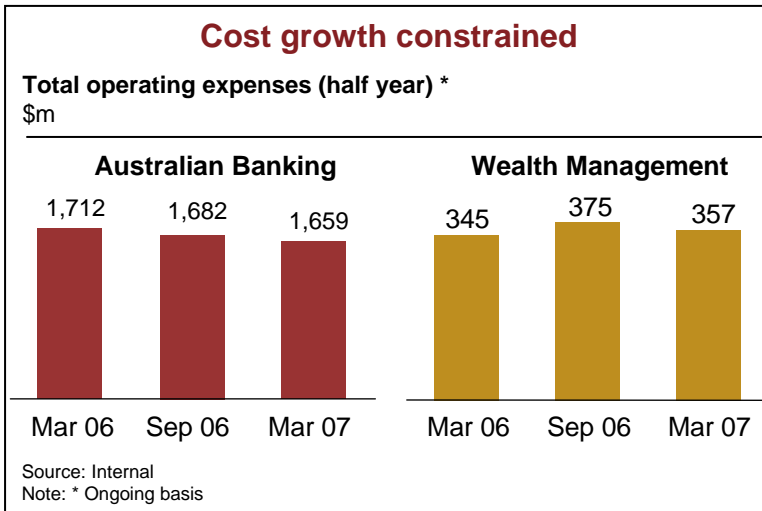
# Cost growth constrained

Australian Region (excluding Asia) Operating Expenses \*  
\$million



Source: Internal  
Note \* Ongoing basis

# Cost constraint and productivity improvements progressing



# We are completing significant base infrastructure refresh, and turning our focus to strategic reinvestment

## Refresh Programs Completing

### Customer Facing:

- > Phase II of Business Internet Banking solution implemented
- > Wealth servicing platform upgraded
- > National Portfolio Lending launched

### Support:

- > New desktop platform 80% deployed (22,000 users)
- > Offshoring - finance back office
- > Front end teller platform upgrade
- > Workflow and imaging installed to automate key processes

## Programs Continuing and Ramping Up

### Programs Mid-Way Complete:

- > Lean process improvements in lending, branch and wealth products / servicing
- > 'Customer First' refreshing the distribution network
- > Enhancements to telephone banking

### Strategic Programs / Projects Ramping Up:

- > Information Mgmt systems upgrade
- > Strategic banking platform refresh
- > Anti-Money Laundering

# Contents

---

- > Summary of March 2007 financial results
  
- > Update on key strategies
  - Re-ignite the organisation
    - People, Customer and Community
  - Become cost competitive
    - While still investing in the business
  
- > Manage the business
  - Australian Banking
  - Wealth Management Australia
  
- > Economic perspective

# Australian Banking ongoing Cash Earnings up 22.6% on prior corresponding period

Australian Banking	Mar-07 HY \$m	Sep-06 HY \$m	Mar-06 HY \$m	% changes on Sep-06 HY    Mar-06 HY	
Net Interest Income	2,681	2,509	2,344	6.9	14.4
Other Operating Income	853	864	867	(1.3)	(1.6)
<b>Total Income</b>	<b>3,534</b>	<b>3,373</b>	<b>3,211</b>	<b>4.8</b>	<b>10.1</b>
Operating Expenses	(1,659)	(1,682)	(1,712)	1.4	3.1
<b>Underlying Profit</b>	<b>1,875</b>	<b>1,691</b>	<b>1,499</b>	<b>10.9</b>	<b>25.1</b>
Charge to provide for Doubtful Debts	(181)	(164)	(115)	(10.4)	(57.4)
<b>Cash Earnings before Tax</b>	<b>1,694</b>	<b>1,527</b>	<b>1,384</b>	<b>10.9</b>	<b>22.4</b>
<b>Cash Earnings</b>	<b>1,194</b>	<b>1,071</b>	<b>974</b>	<b>11.5</b>	<b>22.6</b>
<b>Banking Cost/Income Ratio</b>	<b>46.9%</b>	<b>49.4%</b>	<b>52.9%</b>		
<b>Return on Average Assets</b>	<b>1.06%</b>	<b>1.01%</b>	<b>1.00%</b>		

## Franchise scorecard for the Half

Number of customers	▲
Revenue per customer	▲
ROA	▲
Cash Earnings/FTE	▲
Cost/Income Ratio	▼
Number of FTEs	▲
Margins	▲
Customer Satisfaction	▲

Source: Internal, ongoing basis

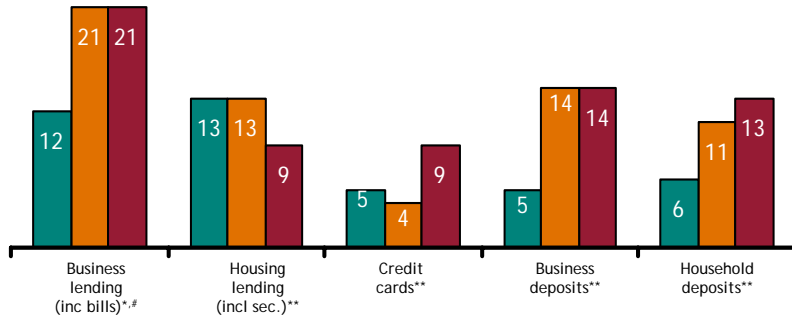
# Australian Banking Revenue Growth

## Volume growth remains strong

### NAB volume growth

YoY percentage change

■ Mar 05 ■ Mar 06 ■ Mar 07

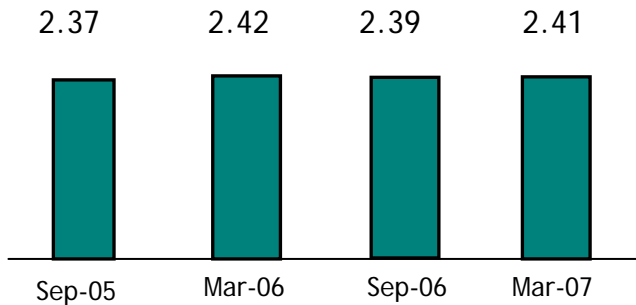


Source: Internal, \*NAB/RBA Financial Aggregates (includes bank held bills, excludes nabCapital), Mar 2007, \*\*NAB/APRA Monthly Banking Statistics, Mar 2007

## Margin impact has been limited

### Australian bank net interest margin

Net Interest Margin\*

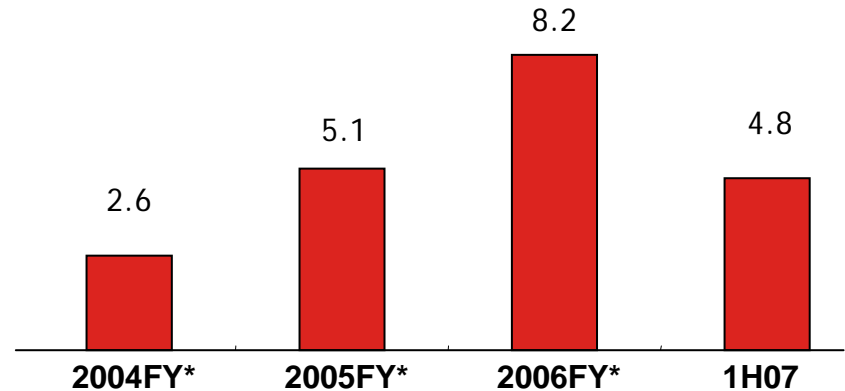


Note: \* Ongoing basis  
Source: Internal

## NAB banking revenue growth restored to peer group performance

### Australian Banking revenue growth

Percentage, YoY growth

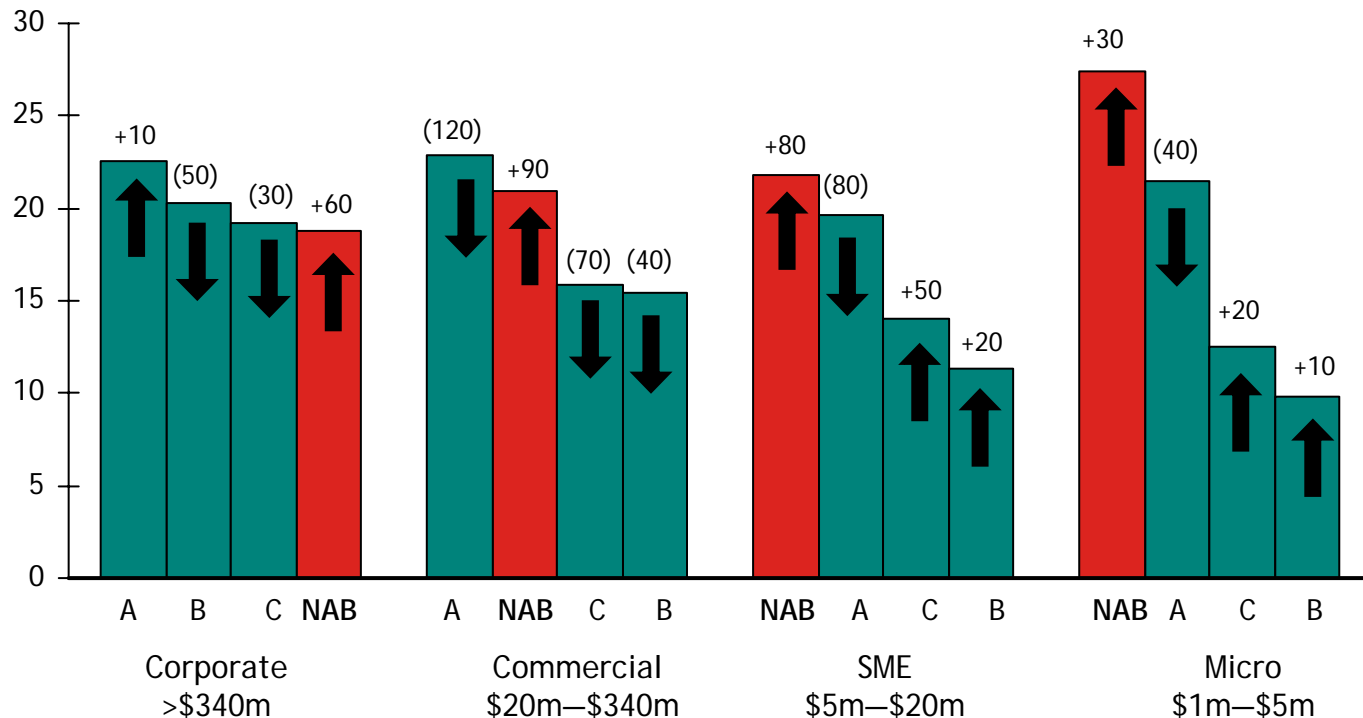


Note: \* FY04 = AGAAP, FY05 = Transitional AIFRS (growth on AGAAP basis), FY06 = Full AIFRS ongoing.  
Source: Internal, Ongoing basis

# NAB - Focus on business transaction banking has increased market share in all segments

## Transaction banking market share and trend

Percentage share and basis point change of primary relationships, by customer segment\*



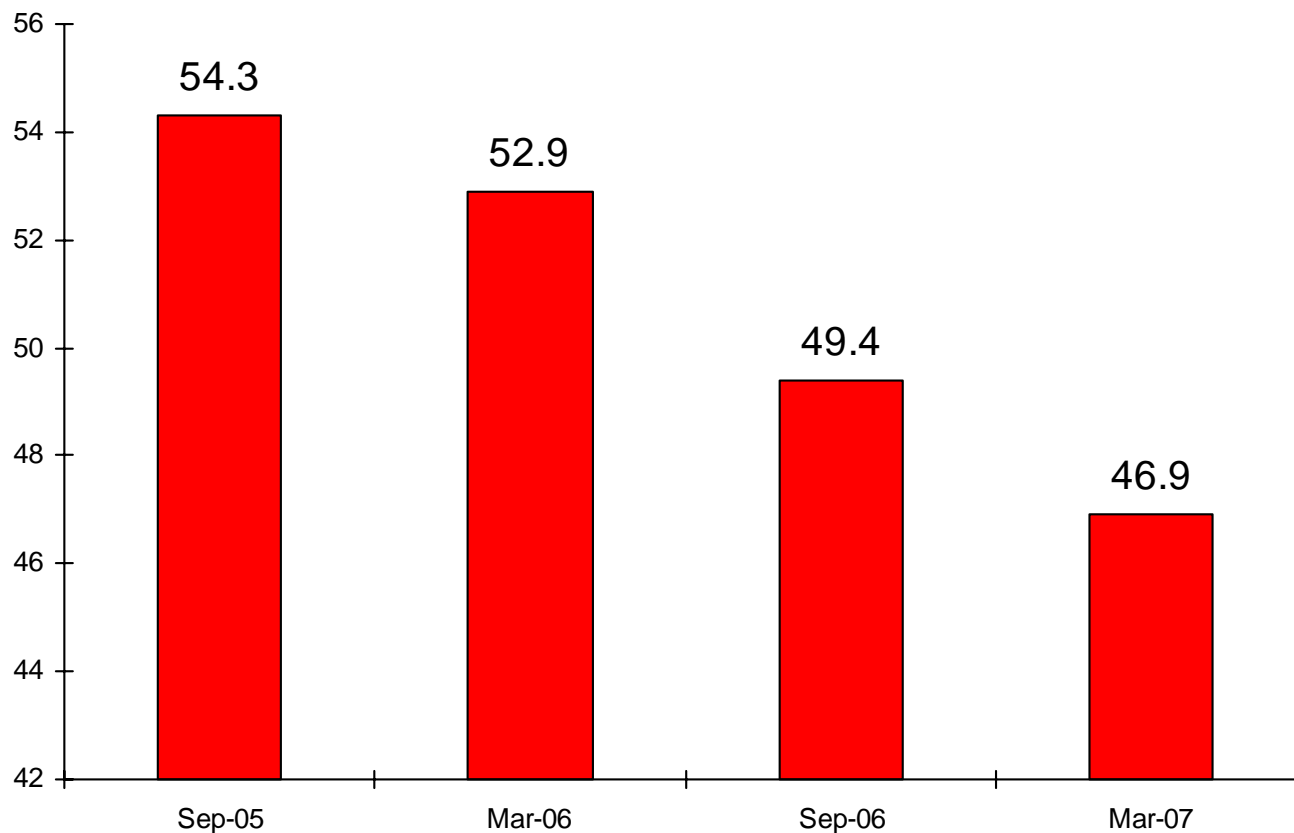
Note: \* Arrows relate to the trend from prior survey, basis point change above the bar

Source: East & Partners; Australian Corporate Transaction Banking Markets Nov 06; Australian Commercial Transaction Banking Markets Feb 07; Australian SME Banking Markets Oct 06; Australian Micro Business Banking Markets Jan 07

# NAB Reduction in cost to income ratio has been significant

## Australian Banking cost/income ratio (half year)

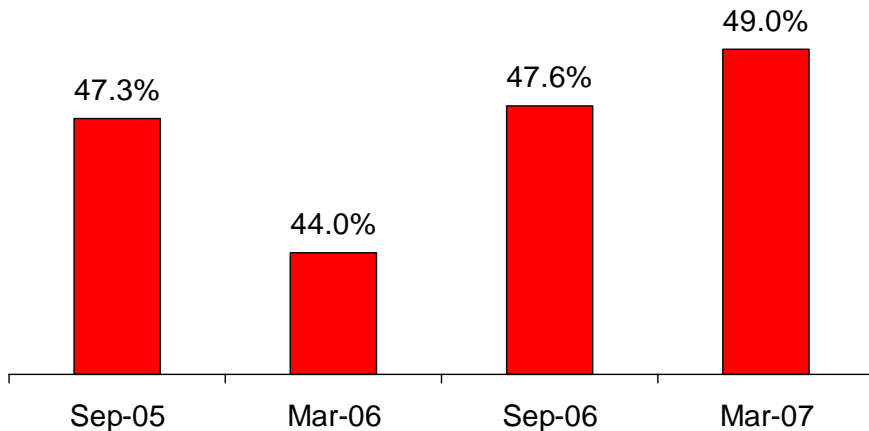
Percentage



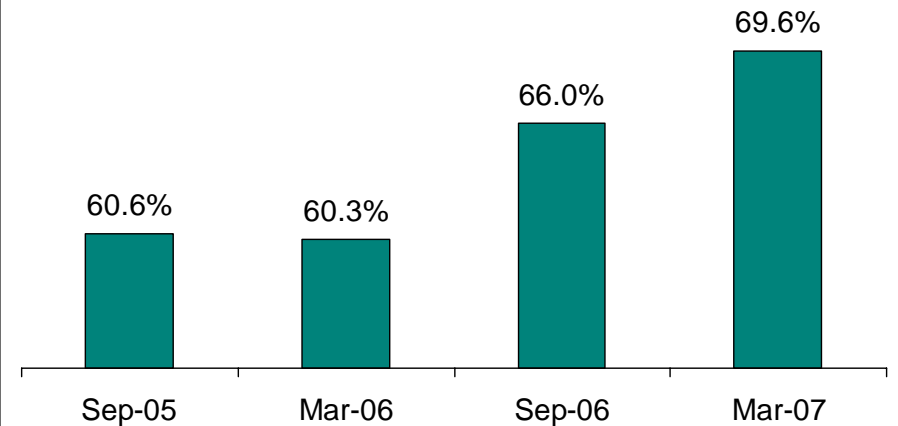
Source: Internal, Ongoing basis

# Well diversified funding portfolio

% Core Assets Funded by customer deposits (CFI)



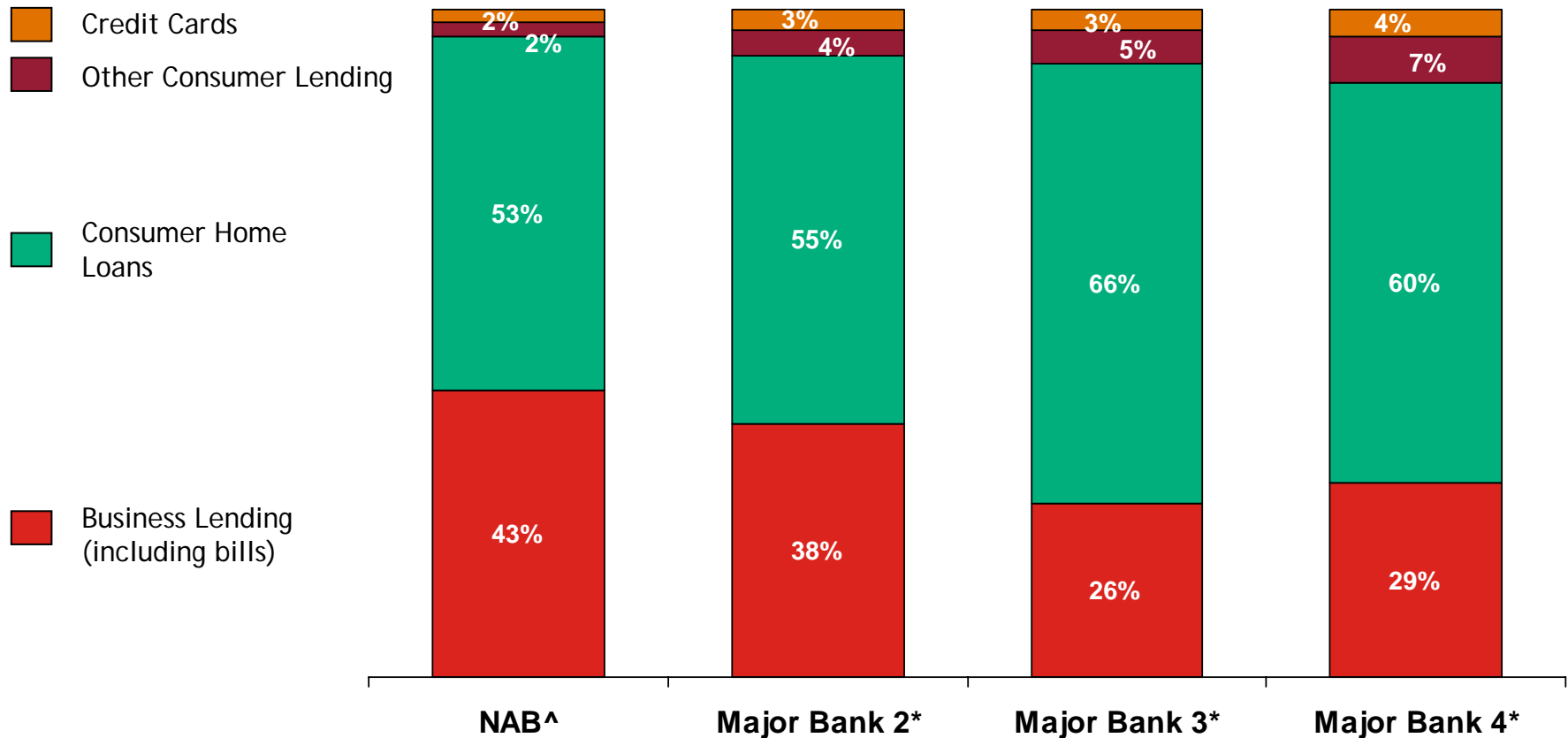
% Core Assets Funded by customer and wholesale term liabilities (SFI)



Source: Internal. Core Assets covers all customer loans and advances and includes overdrafts and bank acceptances (bank bills)

# NAB Australia has lowest proportion of Cards / Other Consumer Lending and biggest position in business loans

Estimated lending asset mix, March 2007, Australia only  
Percentage



Source:

<sup>^</sup> Internal, NAB Other consumer lending excludes line of credit home loans which have been included in Consumer Home Loans

<sup>\*</sup> APRA Banking Statistics March 07

# Australian Housing metrics

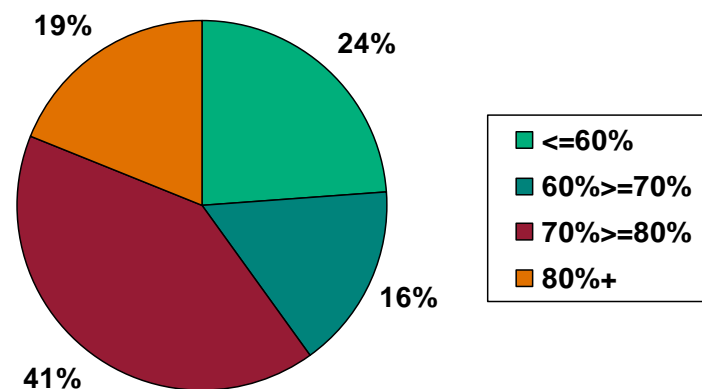
## Low Doc Loans

- \$2.2bn outstanding
- LVR capped at 60% (without LMI)

## Inner City Apartments

- \$2.8bn outstanding
- 2.1% of housing book

## LVR at origination (% portfolio)

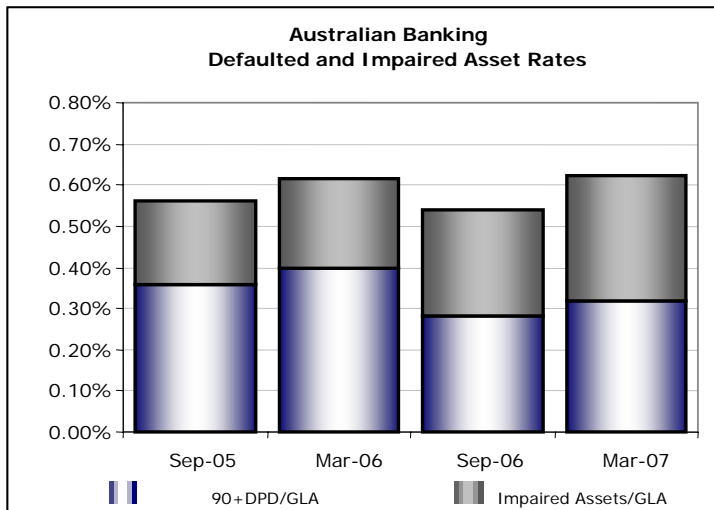
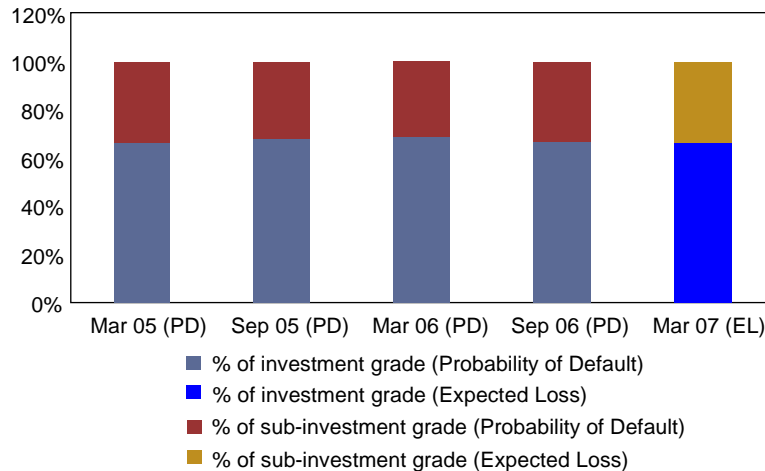


## Origination source - Flows

	Mar 06	Sep 06	Mar 07
Proprietary	72%	77%	77%
Introducer	12%	9%	9%
Broker	16%	14%	14%

# Asset Quality remains sound

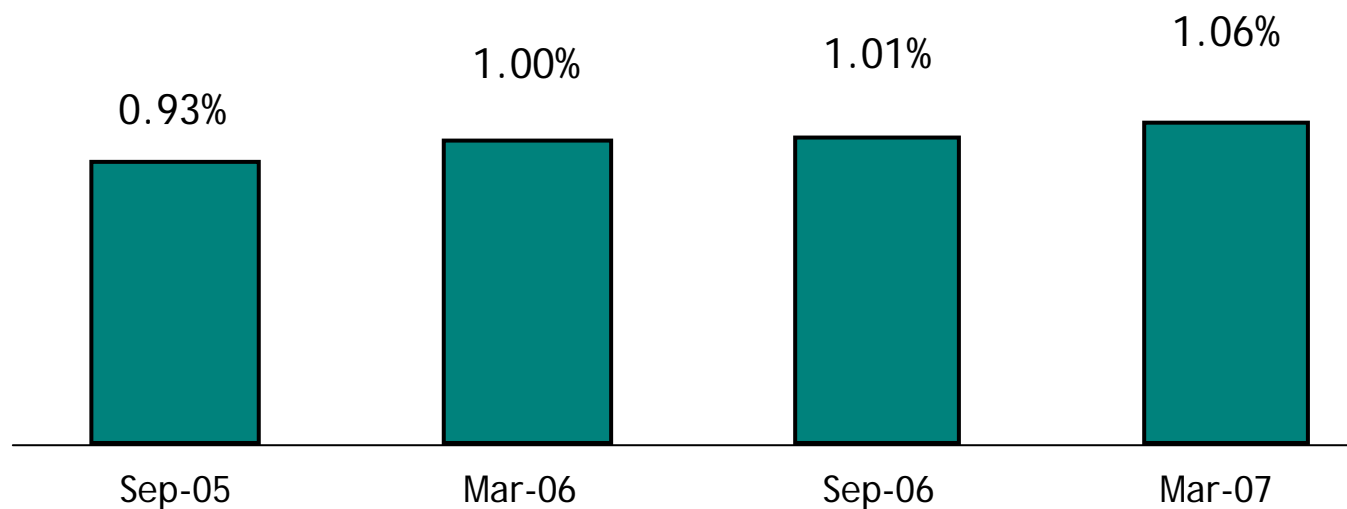
**Non-Retail Lending Customer Risk Distribution (Australian Region)**



- Loan loss provision cover is within expectations.
- Implemented new models as part of Basel II enhancements in Australia
- Proportion of Non Retail investment grade equivalent (AAA to BBB-) and well secured lending (ie bank security > 100% of exposure) remains relatively stable.
- Rise in defaulted and impaired assets partly driven by seasonal factors and current economic conditions across NSW.

# Australian Banking ROA Improving

Australian Banking Return on Average Assets  
Percentage



# Contents

---

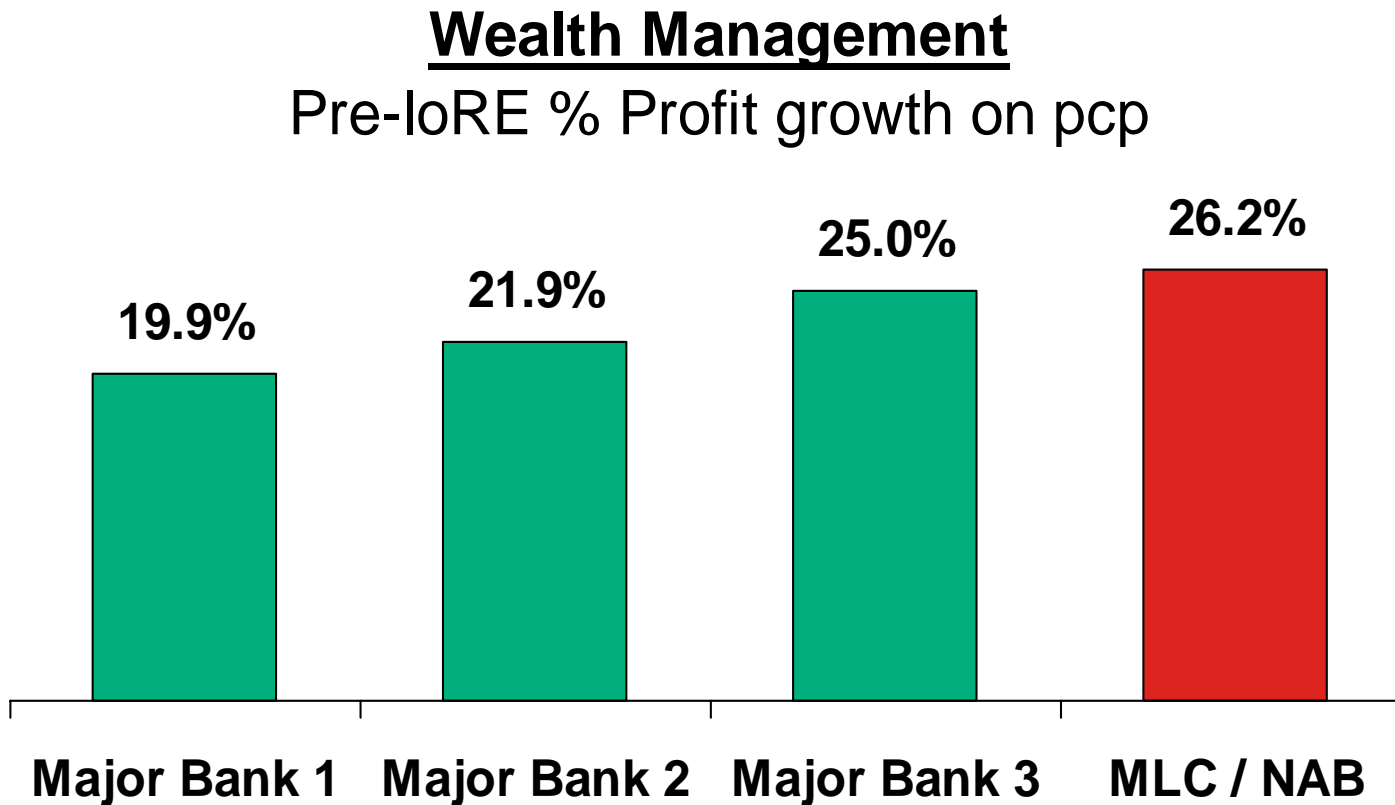
- > Summary of March 2007 financial results
  
- > Update on key strategies
  - Re-ignite the organisation
    - People, Customer and Community
  - Become cost competitive
    - While still investing in the business
  
- > Manage the business
  - Australian Banking
  - Wealth Management Australia
  
- > Economic perspective

# Wealth Management Australia Cash Earnings\* up 26.2% on prior corresponding period.

	Mar-07 HY \$m	Sep-06 HY \$m	Mar-06 HY \$m	% changes on	
				Sep-06 HY	Mar-06 HY
Gross Income	1,040	986	925	5.5	12.4
Volume Related Expenses	(431)	(406)	(382)	(6.2)	(12.8)
Net Income	609	580	543	5.0	12.2
Operating Expenses	(357)	(375)	(345)	4.8	(3.5)
Operating Profit before tax	252	205	198	22.9	27.3
Tax	(69)	(42)	(53)	(64.3)	(30.2)
Cash Earnings before IoRE	183	163	145	12.3	26.2
IoRE (after tax)	21	27	29	(22.2)	(27.6)
Cash Earnings	204	190	174	7.4	17.2
Cost to average FUM	54bps	60bps	56bps		
Cost to avg annual inforce premiums	25%	29%	31%		

# MLC was one of the top performers vs Competitors in Wealth Management

---



Source: Internal.

2007 Half Year Financial Reports (MLC/NAB Cash Earnings before loRE, Colonial / CBA - Net Profit after Income tax (underlying basis) for both Funds Management and Insurance, BT/WBC – Cash Earnings for Total Funds Management and Insurance, ING/ANZ – Operating Profit After Tax, before capital investment earnings)

---

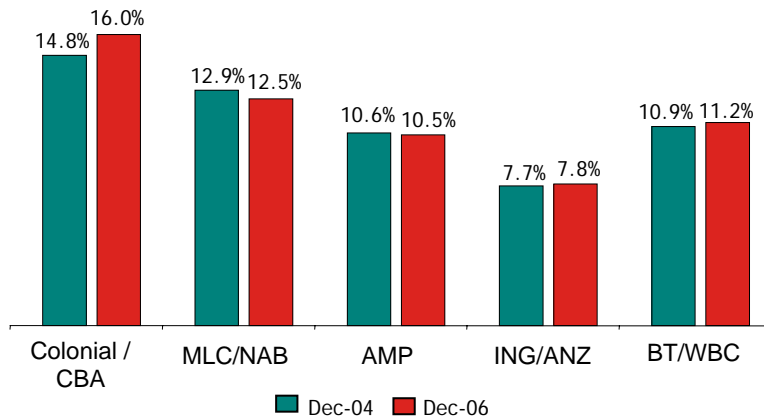
# Investment results

	Mar-07 HY \$m	Sep-06 HY \$m	Mar-06 HY \$m	% changes on	
				Sep-06 HY	Mar-06 HY
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
Tax	(41)	(18)	(26)	large	(57.7)
Cash Earnings before IoRE	107	88	80	21.6	33.8

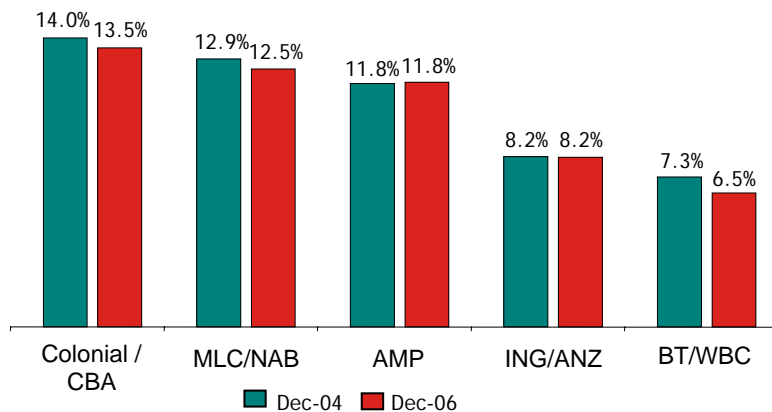
# MLC / NAB focus is on being a Retail Marketer

## Market Share - Investments

Top 5 FUM (Retail Administrator Ex. Cash Trusts) \*  
Dec 2006



Top 5 FUM (Retail Marketer Ex. Cash Trusts) \*  
Dec 2006



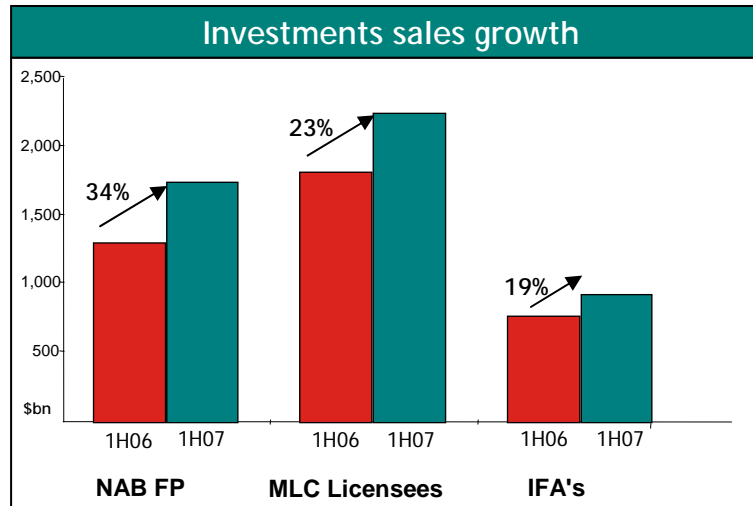
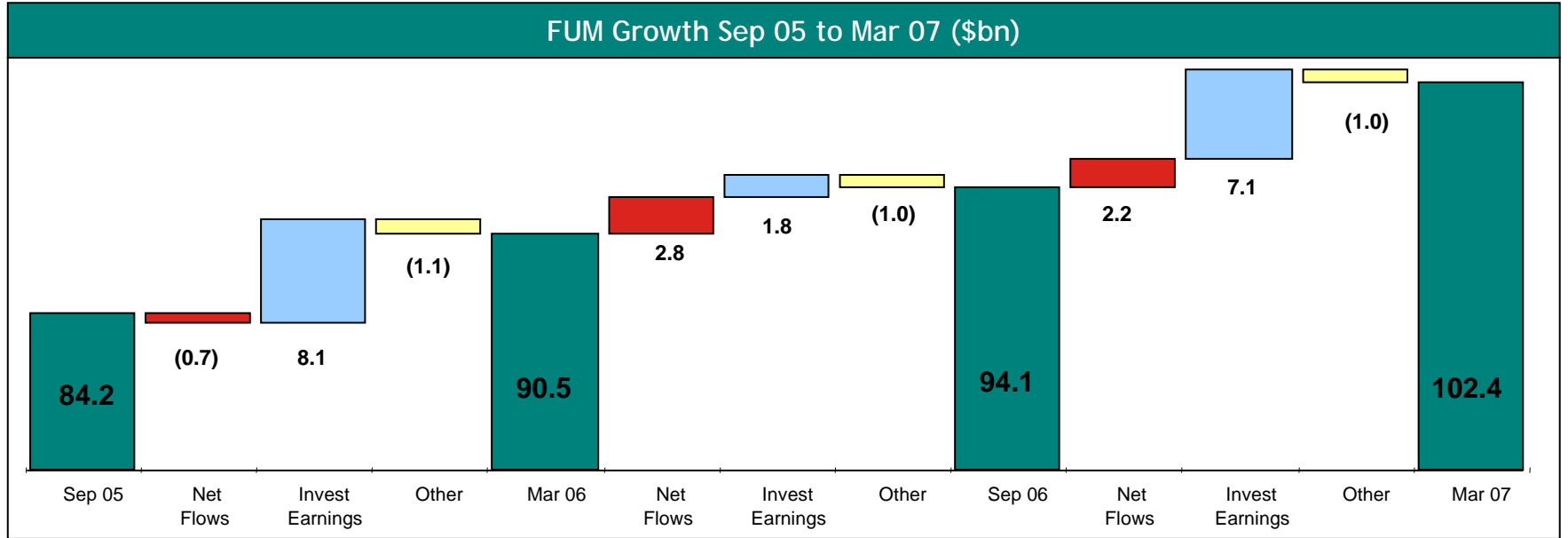
## Observations

- > Providers of Badged Wraps are winning "Administration" market share
- > Administration of "Badged Wraps" is low margin as "Administrators", lack end customer relationships
- > Major brands are losing share to minor brands, especially "Badged Wraps"
- > Some "Majors" competing aggressively for large corporate super outsource business

# Insurance results

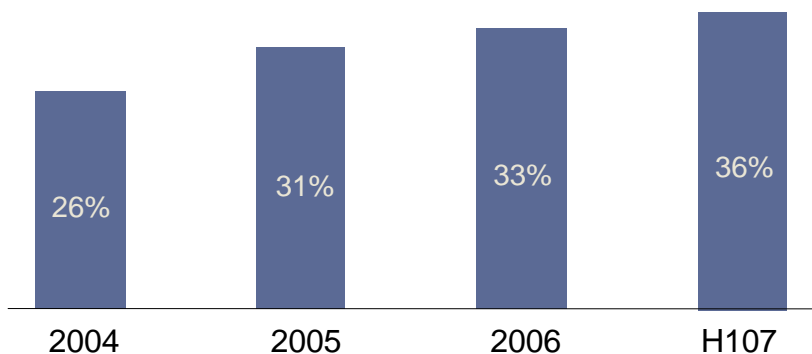
	Mar-07 HY \$m	Sep-06 HY \$m	Mar-06 HY \$m	% changes on	
				Sep-06 HY	Mar-06 HY
Gross Income	419	412	378	1.7	10.8
Volume Related Expenses	(223)	(213)	(186)	(4.7)	(19.9)
Net Income	196	199	192	(1.5)	2.1
Operating Expenses	(92)	(100)	(100)	8.0	8.0
Profit before tax	104	99	92	5.1	13.0
Tax	(28)	(24)	(27)	(16.7)	(3.7)
Cash Earnings before IoRE	76	75	65	1.3	16.9

# Wealth Management - FUM and Sales

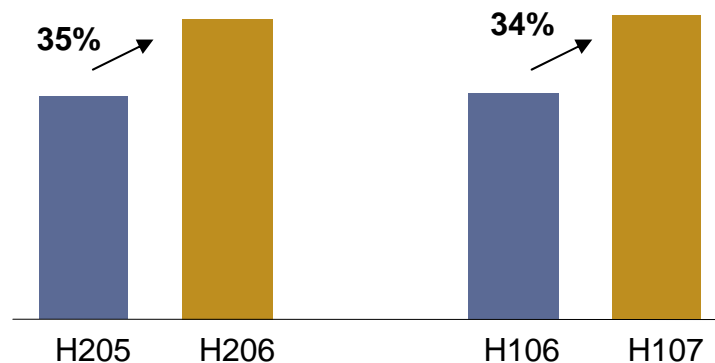


# Cross - selling success

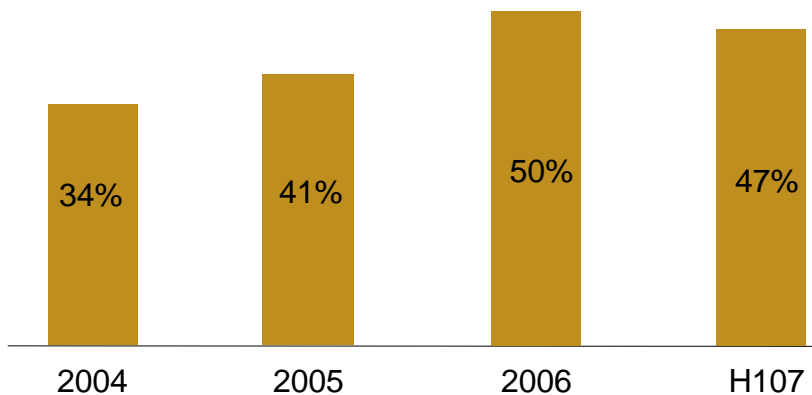
**Bank Channels % of total Wealth Retail Investment Sales**



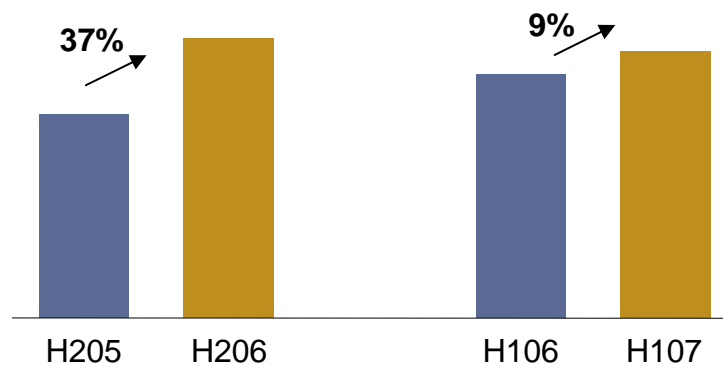
**Investment Sales through Bank Channels \$bn**



**Bank Channels % of total Wealth Protection Sales\***



**Insurance Sales through Bank Channels \$m**



Source: Internal. \* Sep 06 and Mar 06 cross sell data restated to include cross sales from National Credit Card protection sales

# Portfolio well positioned for growth

---

## Business and Private

- > Tightly managing credit position; diversified geographically
- > Focusing on specialisation in high growth sectors and transaction banking share

## Retail Banking

- > Limiting exposure to unsecured consumer lending
- > Building distribution capability for core deposits, home loans and Wealth sales
- > Rebuilding key talent and sales capability

## Wealth Management

- > Well positioned to take advantage of growth in superannuation and investments and demographic shifts
- > Continued focus on cross-selling into bank
- > Efficiency & productivity programs delivering benefits

# Contents

---

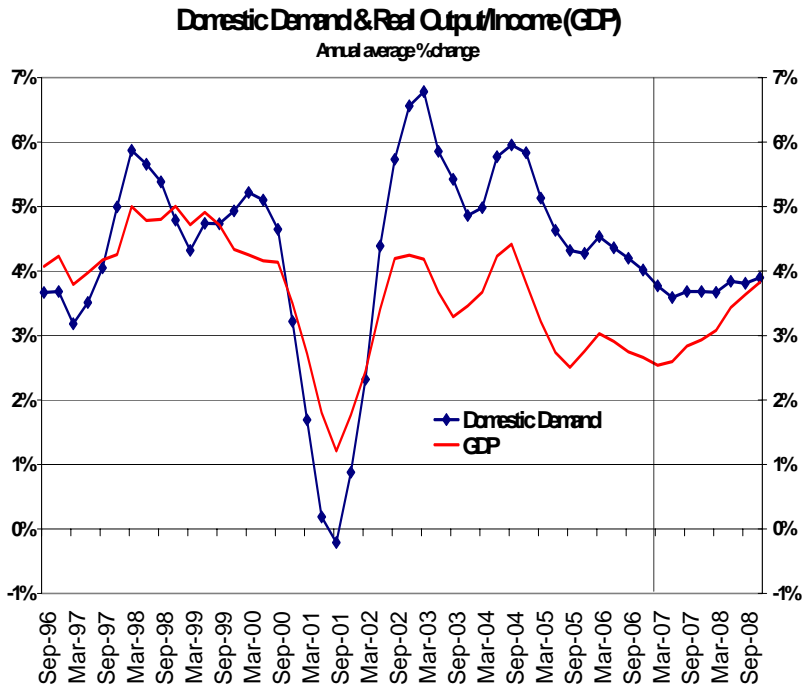
- > Summary of March 2007 financial results
  
  - > Update on key strategies
    - Re-ignite the organisation
      - People, Customer and Community
    - Become cost competitive
      - While still investing in the business
  
  - > Manage the business
    - Australian Banking
    - Wealth Management Australia
- > Economic perspective

# Economic perspective

---

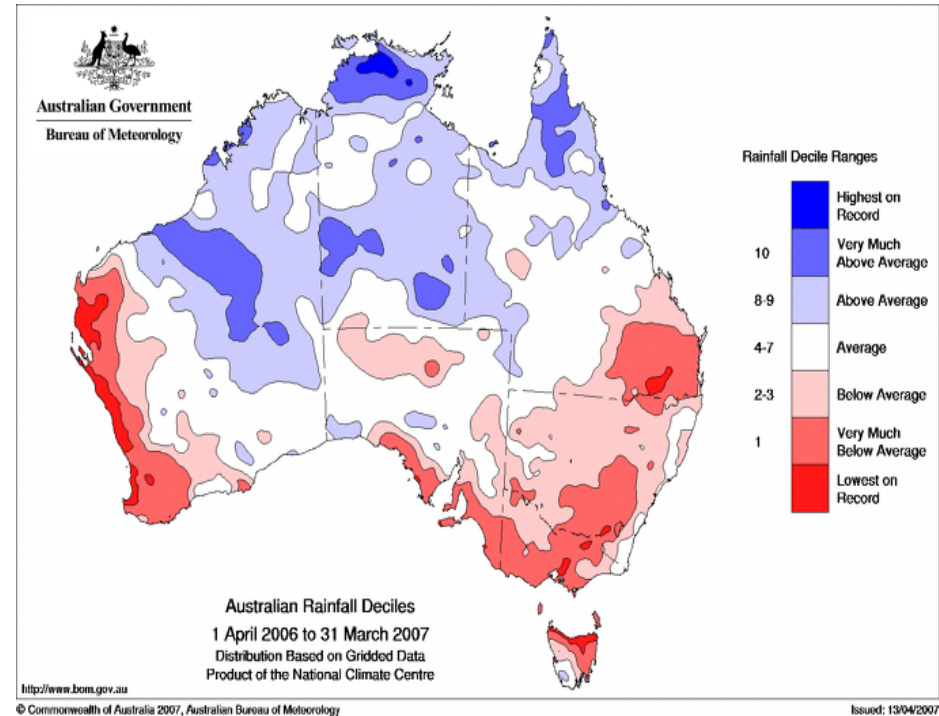
- > Global Global growth moderates. China remains robust. US slowed significantly but soft landing expected
- > Economy Sustained income growth & low unemployment expected in Australia  
Inflation should be contained by competition & productivity, notwithstanding some wage & other cost pressures
- > Local Markets Sustained strength predicted in resources & infrastructure  
Drought assumed to break, with flow through impact on 2007  
Business customers are generally in good shape  
Some consumers are over stretched
- > Asset Markets Normal returns predicted from equities  
Moderate house price gains expected

# Spending and GDP growth



- > GDP growth expected to stabilise at around 3% in 2007

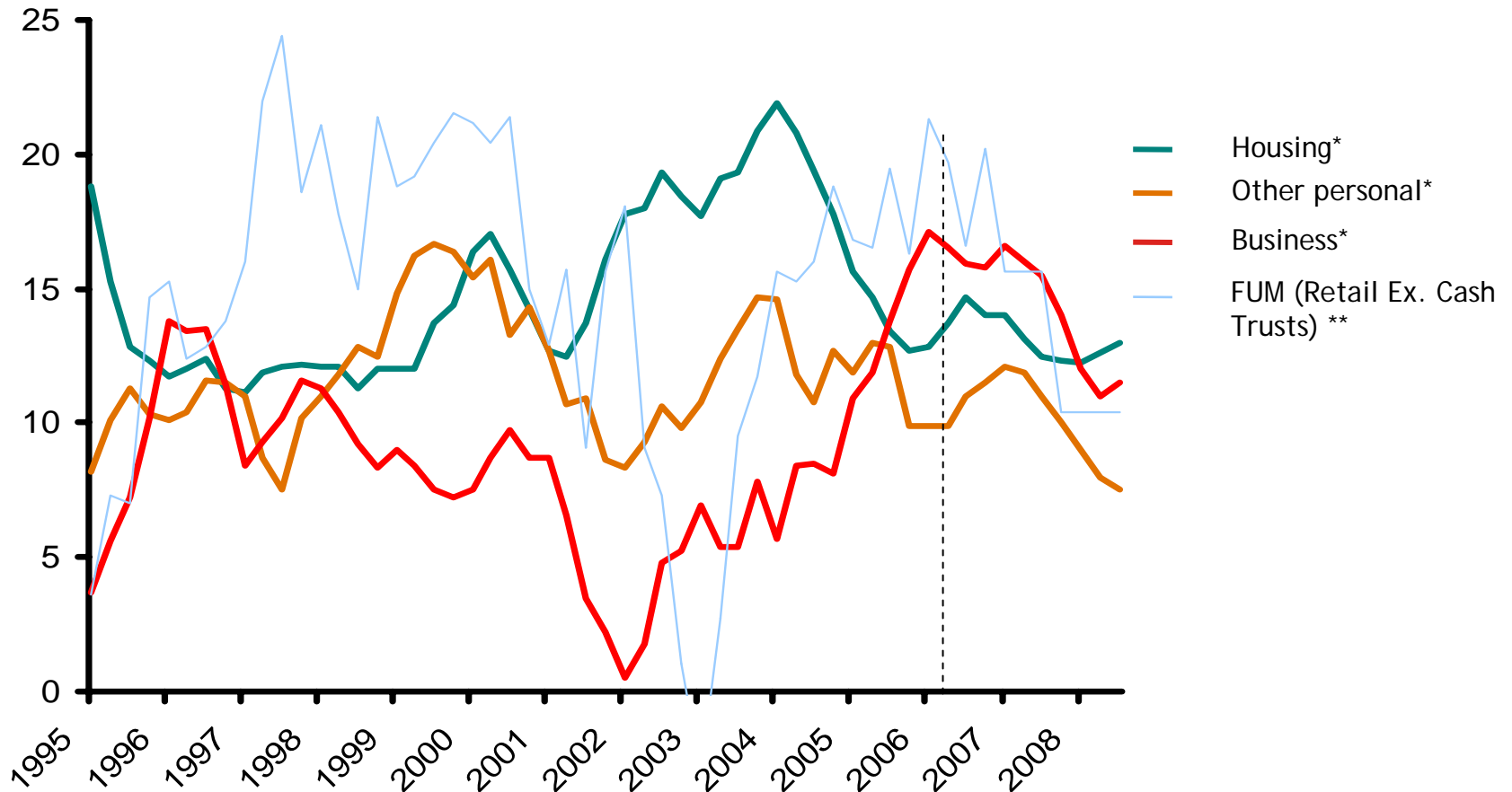
Source: ABS, Internal, NAB Group Economics.



- > Drought assumed to break.
- > US "soft landing" expected & China remains robust

# Industry credit growth remains strong but is forecast to slow in 2007 vs 2006

System credit growth - by broad economic type  
Percentage, September FY



Source:RBA,Internal, \*NAB Group Economics / RBA (Sep year end), \*\*Plan for Life Quarterly Data System June 2006 (June year end)  
Note: Forecast from March 2007 onwards sourced from NAB Group Economics / Internal

# Macro risks to economic outlook estimates

---

- **US “Hard Landing”** - A severe downturn in housing markets and flow on to equity markets could see a marked slow down in US and in turn global activity.
- **Geo politics** - Both political, oil & trade tensions continue to overhang the outlook.
- **High household leverage** - high household gearing, leaves some consumers vulnerable to higher interest rates and/or an unexpected loss of jobs.
- **Commodity prices** are very high and providing a significant boost to Australian incomes and asset markets. Our forecasts allow for prices to go sideways during 2007 before moderate falls in 2008. Extreme movements in either direction could complicate policy responses and economic outcomes in Australia.
- **Drought** - continued poor seasonal conditions in Australia. Our forecasts assume a break in the drought during the middle of 2007 - adding up to 1% to GDP growth in 2007/08

# Summary

---

- > A good result with strong earnings performance
- > Remain focused on our rebuild program to deliver sustainable performance
- > Six key priorities in becoming truly competitive
  - Delivering quality customer processes
  - Streamlining support costs and optimising balance sheet
  - Reshaping our distribution economics
  - Cross-selling to satisfy more customer needs
  - Providing priority infrastructure
  - Bringing a shared NAB culture and brand to life

# Disclaimer

---

This document is a presentation of general background information about the Group's activities in May 2007. It is information in a summary form and does not purport to be complete. It is to be read in conjunction with the National Australia Bank Limited Half Year results filed with the Australian Securities Exchange on 10 May 2007. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice, when deciding if an investment is appropriate.

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