2007 annual financial report

National Australia Bank

nab Clydesdale Bank Yorkshire Bank Bank of New Zealand nabCapital MLC

National Australia Bank Limited
ABN 12 004 044 937

This 2007 annual financial report is lodged with the Australian Securities and Investments Commission and Australian Securities Exchange.

National Australia Bank Limited (NAB) is publicly listed in Australia and overseas and, as such, must meet regulatory requirements of all jurisdictions it operates in internationally. This report contains information prepared on the basis of the *Corporations Act* 2001 (Cth) and Australian equivalents to International Financial Reporting Standards. The Group deregistered from the United States Securities and Exchange Commission (SEC) effective September 20, 2007. Accordingly, all SEC related disclosures have been removed from this financial report for both the current and comparative financial years.

NAB is no longer obliged to produce a concise version of this report, and this year introduced a non statutory shareholder review. The shareholder review comprises information from the annual financial report and the Company's 2007 profit disclosures.

To view the annual financial report online, visit www.nabgroup.com. Alternatively, to arrange for a copy to be sent to you free of charge, call Shareholder Services on 1300 367 647 from within Australia, or +61 3 9415 4299 from outside Australia.

Nothing in this report is, or should be taken as, an offer of securities in NAB for issue or sale, or an invitation to apply for the purchase of such securities.

All figures in this document are in Australian dollars unless otherwise stated.

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Report of the directors

The directors of National Australia Bank Limited (Company) present their report, together with the financial statements of the Group, being the Company and its controlled entities, for the year ended September 30, 2007.

The directors of the Company have a significant responsibility with respect to the integrity of external reporting. This involves reviewing and monitoring, with the assistance of the Audit Committee and management, the processes, controls and procedures which are in place to maintain the integrity of the Group's financial statements. Further details of the role of the Board and its committees can be found on the Group's website www.nabgroup.com.

Principal activities and significant changes in nature of activities

The principal activities of the Group during the year were banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management, funds management, life insurance, and custodian, trustee and nominee services.

Review of operations and Group results

Financial performance summary

	Group	
	2007	**2006**
	$m	**$m**
Net interest income	**9,746**	8,686
Net life insurance income	**1,758**	1,417
Other income	**4,525**	5,420
Operating expenses	**(7,412)**	(7,642)
Charge to provide for doubtful debts	**(790)**	(606)
Profit before income tax expense	**7,827**	7,275
Income tax expense	**(2,255)**	(2,134)
Net profit	**5,572**	5,141
Net profit attributable to minority interests	**(994)**	(749)
Net profit attributable to members of the Company	**4,578**	4,392

Net profit attributable to members of the Company of $4,578 million in 2007, increased $186 million or 4.2% compared with 2006.

Net interest income of $9,746 million in 2007, was $1,060 million or 12.2% higher than 2006. This result reflects continued strong growth in lending along with growth in customer deposits. This has been partly offset by a decrease in the net interest margin from 2.31% to 2.28%.

Net life insurance income increased $341 million from $1,417 million in 2006 to $1,758 million in 2007. This was driven by an increase in investment earnings resulting from strong equity markets and a favourable global economic environment along with favourable claims experience, partly offset by an increase in policy liabilities.

Other income of $4,525 million in 2007, was $895 million or 16.5% lower than 2006. This outcome is a combination of the following factors:

- higher lending and account fees driven by volume growth across the Group, partly offset by customer migration to lower fee products;
- a strong contribution from nabCapital, mainly within the Markets business;
- significant revenue of $319 million during the 2006 year relating to reforms made to the United Kingdom defined benefit pension funds resulting in the recognition of past service revenue; and
- a net profit from the sale of controlled entities of $196 million before tax in the 2006 year from the sale by the Group of its Custom Fleet business on July 31, 2006. Rentals received on leased assets vehicles of $161 million in the 2007 year are $493 million lower than in 2006.

Operating expenses, excluding the charge to provide for doubtful debts, of $7,412 million in 2007 were $230 million or 3.0% lower than 2006. This outcome reflects:

- lower general expenses as the benefits from the 2005 restructuring programme and ongoing efficiency initiatives are realised across the Group;
- lower professional fees as major compliance and litigation matters were finalised during the 2007 year;
- operating expenses of $347 million in the 2006 year relating to the Group's Custom Fleet and MLC Asia businesses up to their respective sale dates;
- a net loss of $63 million from the sale by the Group of its life insurance and related wealth management companies in Asia (MLC Asia) on May 8, 2006; and
- a lower charge to provide for operational risk event losses mainly due to customer overcharging in the 2006 year; partially offset by
  - higher depreciation and amortisation expense reflecting the continued investment in strategic priorities across the Group; and
  - higher personnel expenses reflecting salary rate increases and higher performance based remuneration. This has been partly offset by a reduction in pension expense as a result of the 2006 reforms to the United Kingdom defined benefit pension funds.

The charge to provide for doubtful debts of $790 million in 2007, was $184 million or 30.4% higher than 2006. The increase was primarily as a result of strong growth in lending volumes, softening credit conditions and a reduction in the level of specific write backs from the prior year.

Income tax expense of $2,255 million in 2007, was $121 million or 5.7% higher than 2006. The increase in income tax expense in 2007 reflects higher operating profits before tax in all businesses, and an increase in tax expense attributable to the statutory funds of the life insurance business.

Report of the directors

Balance sheet summary

	Group 2007 $m	2006 $m
Assets		
Cash and liquid assets	**12,796**	12,768
Due from other banks	**25,144**	24,372
Trading derivatives	**23,019**	13,384
Trading securities	**21,272**	13,740
Investments – available for sale	**1,345**	1,493
Investments – held to maturity	**5,016**	1,388
Investments relating to life insurance business	**62,630**	54,784
Other financial assets at fair value [(1)]	**25,189**	22,123
Loans and advances [(1)]	**320,870**	283,777
Due from customers on acceptances [(1)]	**49,322**	41,726
All other assets	**18,031**	15,230
Total assets	**564,634**	484,785
Liabilities		
Due to other banks	**42,566**	37,489
Trading derivatives	**23,248**	12,008
Other financial liabilities at fair value	**21,850**	17,680
Deposits and other borrowings	**254,225**	222,277
Liability on acceptances	**30,443**	32,114
Life policy liabilities	**53,097**	46,475
Bonds, notes and subordinated debt	**80,983**	65,006
Other debt issues	**926**	2,274
All other liabilities	**27,411**	21,490
Total liabilities	**534,749**	456,813
Total equity	**29,885**	27,972
Total liabilities and equity	**564,634**	484,785

(1) *Included within "Other financial assets at fair value" are loans held at fair value of $19,564 million. These are included in net loans and advances in the narrative below.*

Total assets at September 30, 2007 increased by 16.5% to $564,634 million from $484,785 million at September 30, 2006.

Total net loans and advances (including acceptances and loans at fair value) increased $47,479 million or 13.9% to $389,756 million at September 30, 2007. This is a result of continued growth in business lending within Australia and the UK, strong growth in nabCapital and solid growth in New Zealand.

Marketable debt securities (trading securities, available for sale and held to maturity investments) increased $11,012 million or 66.3% to $27,633 million at September 30, 2007. This increase is in response to the market disruption in the last quarter of the financial year, in order to hold liquidity to fund any potential short term requirements.

Investments relating to life insurance business increased by $7,846 million or 14.3% during the 2007 year to $62,630 million. This increase primarily reflects growth in funds under management. The increase was largely offset by an increase in life policy liabilities of $6,622 million or 14.2% to $53,097 million as the movement in investment assets primarily reflects returns made on policyholder contributions to the investment linked businesses.

Total liabilities at September 30, 2007 increased by 17.1% to $534,749 million from $456,813 million at September 30, 2006.

Deposits and other borrowings increased by $31,948 million or 14.4% during the year to $254,225 million. This increase reflects sound growth in on-demand and savings deposits.

Bonds, notes and subordinated debt increased by $15,977 million or 24.6% to $80,983 million at September 30, 2007. The Group has a number of funding programs available, and the increase reflects further issues of the Group's Euro and domestic medium-term notes programs undertaken to fund asset growth and re-finance maturing short-term and long-term debt.

Total equity in the Group increased from $27,972 million at September 30, 2006 to $29,885 million at September 30, 2007. Total parent entity interest in equity increased by $445 million to $26,313 million at September 30, 2007. These increases primarily reflect ordinary share issues, conversion of exchangeable capital units to ordinary shares and reserve increases which were partially offset by the Company's share buy back.

Directors

Details of directors of the Company in office at the date of this report, and each director's qualifications, experience and special responsibilities (or holding office during the year) are below:

Mr Michael A Chaney AO, BSc, MBA, Hon. LLD *W.Aust*, FAIM, FAICD

Term of office: Chairman since September 2005 and director since December 2004.

Independent: Yes

Skills & Experience: 22 years with Wesfarmers Limited, including Managing Director and Chief Executive Officer from 1992 until July 2005. Three years with investment bank Australian Industry Development Corporation, 1980 to 1983.

Directorships of listed entities within the last three years, other directorships and offices *(current & recent)*

- Chairman of Woodside Petroleum Ltd (since August 2007, Director since November 2005)
- Chairman of Gresham Partners Holdings Limited (since July 2005, Director since 1985)
- Director of Centre for Independent Studies (since October 2000)
- Chairman of Australian Research Alliance for Children and Youth Limited (since July 2002)
- Chancellor of University of Western Australia (since January 2006)
- Member of JP Morgan International Advisory Council (since October 2003)
- President of Business Council of Australia (October 2005 to October 2007)
- Council member of National Gallery of Australia (December 2000 to October 2006)
- Former Director of BHP Billiton Limited (from May 1995 to November 2005) & BHP Billiton PLC (from June 2001 to November 2005)

Board Committee membership

- Chairman of the Nomination Committee

Report of the directors

Mr John M Stewart BA, ACII, FCIB

Term of office: Director since August 2003. Managing Director and Group Chief Executive Officer from February 2004.

Independent: No

Skills & Experience: 27 years in banking and finance in the United Kingdom including four years as Group Chief Executive of Woolwich PLC until its acquisition by Barclays PLC in 2000 when he was appointed Deputy Group Chief Executive of Barclays PLC.

Directorships of listed entities within the last three years, other directorships and offices *(current & recent)*
- Director of the Business Council of Australia (since August 2005)
- Chairman of Australian Banking Association (since July 2007)

Mrs Patricia A Cross BSc (Hons), FAICD, FAIM

Term of office: Director since December 2005.

Independent: Yes

Skills & Experience: 25 years in international banking and finance, including management and senior executive roles in Europe, the United States and Australia with Chase Manhattan Bank, Banque Nationale de Paris and National Australia Bank. Mrs Cross is a Fellow of the Finance and Treasury Association and was a founding member of the Financial Sector Advisory Council to the Federal Treasurer serving for five years until 2003. In 2003, she received a Centenary Medal for service to Australian society through the finance industry.

Directorships of listed entities within the last three years, other directorships and offices *(current & recent)*
- Director of Wesfarmers Limited (since February 2003)
- Director of Qantas Airways Limited (since January 2004)
- Director of Methodist Ladies College, Melbourne (effective January 2008)
- Director of Murdoch Childrens Research Institute (since August 2005)

Board Committee membership
- Member of the Risk Committee
- Member of the Nomination Committee

Mr Peter JB Duncan BE (Chem) (1st Class Hons), DBS (with Distinction)

Term of office: Director since November 2001.

Independent: Yes

Skills & Experience: 36 years with Royal Dutch/Shell Group of companies, including senior finance and general management positions in Australia, New Zealand, South America, Europe and South East Asia. He was Chairman of the Shell Group of Companies in Australia and New Zealand. Former Chairman of the Australian Institute of Petroleum.

Directorships of listed entities within the last three years, other directorships and offices *(current & recent)*
- Chairman of the Cranlana Program Foundation (since September 2006)
- Chairman of Scania Australia Pty Limited (since August 2003)
- Director of Orica Limited (since June 2001)
- Former Director of GasNet Australia Limited (from October 2001 to September 2005)
- Former Director of CSIRO (from June 2002 to September 2005)
- Governor of the Committee for the Economic Development of Australia (CEDA) (since March 2003)
- President of the Australian German Association (from September 2001 to 2005)

Board Committee membership
- Chairman of the Remuneration Committee
- Member of the Nomination Committee

Mr Ahmed Fahour BEc (Hons), MBA, FAIM

Term of office: Director since October 2004. Chief Executive Officer, Australia since September 2004.

Independent: No

Skills & Experience: 20 years in economics and finance, most recently as Chief Executive Officer, Australia and New Zealand, Citigroup in 2004, and he held senior management positions in Citigroup from 2000 to 2004 including Chief Executive Officer, Citigroup Alternative Investments and Vice Chairman of Citigroup Investment Ltd. Previously Managing Director, iFormation Private Equity Group and a director of Boston Consulting Group. He is an honorary Business Ambassador for Melbourne's North. He is also a Director of National Wealth Management Holdings Limited & MLC Limited (subsidiaries of the National).

Directorships of listed entities within the last three years, other directorships and offices *(current & recent)*
- Director of Rip Curl Group Pty Ltd. (since July 2004)
- Director of Rip Curl Property Pty Ltd (since September 2007)

Mr Daniel T Gilbert AM, LLB

Term of office: Director since September 2004.

Independent: Yes

Skills & Experience: 30 years in commercial law, specialising in technology and corporate law.

Directorships of listed entities within the last three years, other directorships and offices *(current & recent)*
- Managing Partner of Gilbert + Tobin (which he co-founded in 1988)
- Former Chairman of Australian Film, Television & Radio School (from 2000 to July 2006)
- Former Director of Bangarra Dance Theatre (from 1998 to March 2006)
- Councillor Australian Business Arts Foundation

Board Committee membership
- Member of the Remuneration Committee
- Member of the Nomination Committee

Report of the directors

Mr Thomas (Kerry) McDonald BCom, MCom (Hons), DCom *(hc)*, AFID, FNZIM

Term of office: Director since December 2005.

Independent: Yes

Skills & Experience: 40 years in economic consulting, energy, resources, logistics and banking in Australia and New Zealand with a particular interest in organisation performance and improvement.

He was a senior executive of Comalco from 1981 and a Managing Director and member of the Comalco Group Executive Committee from 1988 to 2000. He is also Chairman of Bank of New Zealand (director since August 1991).

Directorships of listed entities within the last three years, other directorships and offices *(current & recent)*

- Director / Vice Chairman of OceanaGold Limited (since December 2003)
- Director of Opus International Consultants Ltd (since April 2007)
- Director of Leighton Contractors Pty Ltd (since July 2007)
- Deputy Chairman of NZ Institute of Economic Research (since October 2002)
- Former Director / Chairman of Advanced Dynamics NZ Ltd (from April 2003 to January 2007)
- Former Director of Gough Gough & Hamer Limited (from August 2000 to June 2007)
- Former Director of Ports of Auckland Limited (from August 2002 to July 2007)
- Former Director of Carter Holt Harvey Limited (from April 1996 to January 2006)
- Former Director of Dux Industries Limited (from March 2001 to November 2005)
- Former NZ Chairman of Australia-New Zealand Leadership Forum (from 2004 to 2006)
- Trustee and Member of the Board of Management of the NZ Business & Parliament Trust
- Life Member of Australia New Zealand Business Council
- Member of the Governing Board of Antarctica New Zealand (since July 2003)
- Vice President, Institute of Directors, New Zealand
- Principal – Strategic Value Limited

Board Committee membership

- Member of the Audit Committee
- Member of the Nomination Committee

Mr Paul J Rizzo BCom, MBA

Term of office: Director since September 2004.

Independent: Yes

Skills & Experience: 37 years in banking and finance. Formerly Dean and Director of Melbourne Business School from 2000 to 2004, Group Managing Director, Finance and Administration, Telstra Corporation Limited from 1993 to 2000, senior roles at Commonwealth Bank of Australia from 1991 to 1993, Chief Executive Officer of State Bank of Victoria in 1990 and 24 years with Australia and New Zealand Banking Ltd from 1966 to 1990.

Directorships of listed entities within the last three years, other directorships and offices *(current & recent)*

- Director of BlueScope Steel Limited (since May 2002)
- Consultant director to Mallesons Stephen Jaques (since August 2002)
- Director of Villa Maria Society (since July 2006)
- Chairman of the Foundation for Very Special Kids (since July 2004)

Board Committee membership

- Chairman of the Risk Committee
- Member of the Audit Committee
- Member of the Nomination Committee

Ms Jillian S Segal AM, BA, LLB, LLM (Harvard), FAICD

Term of office: Director since September 2004.

Independent: Yes

Skills & Experience: 20 years as a lawyer and regulator, most recently at the Australian Securities and Investments Commission from 1997 to 2002 as Commissioner and then Deputy Chairman and as Chairman of the Board of the Banking & Financial Services Ombudsman from 2002 to 2004. She was an environmental and corporate partner and consultant at Allen Allen & Hemsley and worked for Davis Polk & Wardwell in New York.

Directorships of listed entities within the last three years, other directorships and offices *(current & recent)*

- Director of Australian Securities Exchange (since July 2003)
- Director of ASX Market Supervision Limited (since July 2006)
- Member of Australia Council's Major Performing Arts Board (since February 2003)
- Member of University of New South Wales Council (since February 2006)
- President of the Administrative Review Council (since September 2005)

Board Committee membership

- Member of the Risk Committee
- Member of the Remuneration Committee
- Member of the Nomination Committee

Mr John G Thorn FCA, FAICD

Term of office: Director since October 2003.

Independent: Yes

Skills & Experience: 37 years in professional services with PricewaterhouseCoopers, over 20 years as a partner responsible for significant international and Australian clients. Australian National Managing Partner and a member of the Global Audit Management Group until 2003.

Directorships of listed entities within the last three years, other directorships and offices *(current & recent)*

- Director of Amcor Limited (since December 2004)
- Director of Caltex Australia Limited (since June 2004)

- Director of Salmat Limited (since September 2003)

Board Committee membership
- Chairman of the Audit Committee
- Member of the Nomination Committee

Mr Geoffrey A Tomlinson BEc

Term of office: Director since March 2000.

Independent: Yes

Skills & Experience: 29 years with the National Mutual Group, six years as Group Managing Director and Chief Executive Officer until 1998. He is also the Chairman of National Wealth Management Holdings Limited, MLC Limited and MLCI Limited (subsidiaries of the National)

Directorships of listed entities within the last three years, other directorships and offices *(current & recent)*
- Chairman of Programmed Maintenance Services Limited (since August 1999)
- Chairman of Dyno Nobel Limited (since February 2006)
- Director of Amcor Limited (since March 1999)
- Former Deputy Chairman of Hansen Technologies Ltd (from March 2000 to February 2006)
- Former Director of Funtastic Limited (from May 2000 to May 2006)
- Former Director of Mirrabooka Investments Limited (from February 1999 to March 2006)

Board Committee membership
- Member of the Audit Committee
- Member of the Nomination Committee

Mr Michael J Ullmer BSc (Maths) (Hons), FCA, SF Fin

Term of office: Director since October 2004. Group Chief Financial Officer from September 2004.

Independent: No

Skills & Experience: 35 years in banking and finance, including seven years with Commonwealth Bank of Australia as Group Executive, Institutional and Business Services from 2002 to 2004 and Group Executive, Financial and Risk Management from 1997 to 2002. Formerly partner of Coopers & Lybrand from 1992 to 1997 and 20 years with KPMG including partner from 1982 to 1992. He is also a director of Bank of New Zealand.

Directorships of listed entities within the last three years, other directorships and offices *(current & recent)*
- Director of Melbourne Symphony Orchestra (since February 2007)
- Former Director of Sydney Symphony Pty Ltd (from February 1996 to March 2005)
- Member of European Australian Business Council

As announced to the Australian Securities Exchange on October 4, 2007, Michael Ullmer will take on the new role of Deputy Group Chief Executive Officer effective December 10, 2007.

Sir Malcolm Williamson

Term of office: Director since May 2004.

Independent: Yes

Skills & Experience: 50 years in banking and finance in the United Kingdom and the United States. He served with Barclays PLC from 1957 to 1985, reaching the position of Regional General Manager, London. This was followed by a period as a member of the Post Office board and Managing Director of Girobank PLC. In 1989, he joined Standard Chartered PLC and became Group Chief Executive. In 1998, he moved to the United States and took up the role of President and Chief Executive Officer of Visa International, which he held until 2004. He is also Chairman of National Australia Group Europe Limited and Clydesdale Bank PLC (since June 2004).

Directorships of listed entities within the last three years, other directorships and offices *(current & recent)*
- Chairman of Signet Group PLC (Director since November 2005)
- Deputy Chairman and Senior Independent Director Resolution PLC (since September 2005)
- Director JP Morgan Cazenove Holdings (since April 2005)
- Chairman of CDC Group PLC (Director since January 2004)
- Director of the Prince of Wales International Business Leaders Forum (since February 2006)
- Director of G4S PLC (since May 2004)
- Former Chairman of Britannic Group (from October 2004 to September 2005)
- Chairman of Advisory Board of Youth Business International (since January 2005)

Board Committee membership
- Member of the Nomination Committee

Company Secretaries

Details of company secretaries of the Company in office at the date of this report, and each company secretary's qualifications and experience are below:

Ms Michaela J Healey LLB, FCIS was appointed Company Secretary in April 2006. She has experience in a range of legal, business & corporate affairs roles in listed companies and was formerly Company Secretary of Orica Limited and North Limited. The Company Secretary advises and supports the Board to enable the Board to fulfill its role.

Mr Brendan T Case MComLaw, BEc, GDip App Fin, CPA, FCIS joined the Group in 1997 and has held the position of Associate Company Secretary since 2003. He is Head of the Risk Committee and the Audit Committee Secretariat. He has senior management experience in corporate finance, corporate governance and financial planning.

Directors' and officers' indemnity

The Company's constitution

Article 21 of the Company's constitution provides:

Every person who is or has been an officer is entitled to be indemnified out of the property of the Company to the 'relevant extent' against:

- every liability incurred by the person in the capacity as an officer (except a liability for legal costs); and

- all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil, criminal or of an administrative or investigatory nature, in which the officer becomes involved in that capacity, unless:
- the Company is forbidden by statute to indemnify the person against the liability or legal costs; or
- an indemnity by the Company of the person against the liability or legal costs would, if given, be made void by statute.

The reference to the 'relevant extent' means to the extent and for the amount that the officer is not otherwise entitled to be indemnified and is not actually indemnified.

The Company may also pay, or agree to pay, whether directly or through an interposed entity, a premium for a contract insuring a person who is or has been an officer against liability incurred by the person in their capacity as an officer, including a liability for legal costs, unless:

- the Company is forbidden by statute to pay or agree to pay the premium; or
- the contract would, if the Company paid the premium, be made void by statute.

The Company may enter into a contract with an officer or former officer to give:

- effect to the rights of the officer or former officer conferred by Article 21; and
- an officer or former officer access to papers, including those documents provided from or on behalf of the Company or a related body corporate of the Company to the officer during their appointment and those documents which are referred to in such documents or were made available to the officer for the purpose of carrying out their duties as an officer.

Article 21 does not limit any right the officer otherwise has. In the context of Article 21, 'officer' means a director, secretary or executive officer of the Company or of a related body corporate of the Company.

The Company has executed deeds of indemnity in terms of Article 21 in favour of each director of the Company and certain non-executive directors of related bodies corporate of the Company. Some companies within the Group have extended equivalent deeds of indemnity in favour of directors of those companies.

Directors' and officers' insurance

During the year, the Company, pursuant to Article 21, paid a premium for a contract insuring all directors, secretaries, executive officers and officers of the Company and of each related body corporate of the Company. The insurance does not provide cover for the independent auditors of the Company or of a related body corporate of the Company.

In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

Dividends

The directors have declared a final dividend of 95 cents per fully paid ordinary share, 100% franked, payable on December 18, 2007. The proposed payment amounts to approximately $1,540 million.

Dividends paid since the end of the previous financial year:

- the final dividend for the year ended September 30, 2006 of 84 cents per fully paid ordinary share, 90% franked, paid on December 12, 2006. The payment amount was $1,370 million.
- the interim dividend for the year ended September 30, 2007 of 87 cents per fully paid ordinary share, 90% franked, paid on July 12, 2007. The payment amount was $1,418 million.

Information on the dividends paid and declared to date is contained in note 7 in the financial report.

The franked portion of these dividends carries imputation tax credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%. For non-resident shareholders of the Company for Australian taxation purposes, the unfranked portion of the dividend will be declared to be conduit foreign income. Accordingly, for non-resident shareholders the unfranked portion of the dividend will not be subject to Australian withholding tax.

The extent to which future dividends will be franked, for Australian taxation purposes, will depend on a number of factors including the proportion of the Group's profits that will be subject to Australian income tax and any future changes to Australia's business tax system.

Significant changes in the state of affairs

Senior executive appointments

On October 4, 2007 the Company announced that the following appointments will take effect from December 10, 2007:

- Michael Ullmer appointed Deputy Group Chief Executive Officer (currently Group Chief Financial Officer); and
- Mark Joiner appointed Group Chief Financial Officer (currently Group Executive General Manager Development and New Business); and
- George Frazis appointed Group Executive General Manager Development and New Business (currently Executive General Manager Business and Private Banking Australia).

US Securities and Exchange Commission (SEC) deregistration and the US Sarbanes-Oxley Act

On June 21, 2007, the Group announced to the Australian Securities Exchange that it had applied to terminate the registration of its ordinary shares and registered US debt offerings under the United States Securities Exchange Act of 1934. The SEC deregistration became effective on September 20, 2007.

The SEC deregistration, and the delisting from the New York Stock Exchange ("NYSE"), is another step in the Group's ongoing simplification programme and follows the delisting from the London Stock Exchange and Tokyo Stock Exchange during the 2006 calendar year. The SEC deregistration is expected to reduce the administrative burdens and costs associated with complying with detailed and complex reporting and other obligations under US securities laws. Although the Group has delisted its ordinary shares from the NYSE (which are traded in the US in the form of American Depositary Shares ("ADS") evidenced by American Depositary Receipts), the Group will continue to maintain an over-the-counter ADS program in the US.

Report of the directors

While the Group is no longer required to report under the provisions of the *Sarbanes-Oxley Act of 2002* it is committed to the maintenance of robust internal controls over financial reporting.

Sale of Commercial Fleet business

The Group announced in September 2007 that it had agreed to sell its Commercial Fleet business to Super Group Australia Pty Limited, a subsidiary of Super Group Limited. The sale involves the transfer of assets for $342 million. The sale is subject to regulatory approvals and a number of other conditions including final approval of Super Group's debt funding and no material adverse change to the business before completion.

Credit rating

During the year ended September 30, 2007 the Group's long term credit rating was raised by Standard & Poor's to "AA" from "AA-" with short-term ratings affirmed at "A-1+".

Statement of position regarding Office of Fair Trading (OFT) investigation

In September 2006, the UK Office of Fair Trading announced a formal investigation into the fairness of bank current accounts charges. The responses received from the banking industry generally challenged this belief, but the OFT announced a joint 'fact finding' exercise with the British Bankers Association to review the legal basis for banking charges. Due to the legal uncertainty and as a result of increasing customer claims, the OFT agreed to a test case involving seven banks and one building society in the UK to which Clydesdale Bank is a party. Proceedings were issued on 27 July 2007 in the High Court in England and Wales, and a trial date has been set for January 2008. The timing for the outcome of the legal proceedings is uncertain; however, Clydesdale considers its case to be strong and the bank account charges to be both fair and legally enforceable. Clydesdale is however, unable to predict with any accuracy the outcome of the legal action and is thus unable to reliably estimate any potential liability that may arise. No recognition has therefore been made, contingent or actual, within the financial statements for an adverse outcome.

Conversion of Exchangeable Capital Units (ExCaps)

On February 16, 2007 the Group announced its intention to redeem any outstanding ExCap securities on 26 March 2007. The majority of the ExCaps were converted by unitholders prior to redemption, who upon conversion were issued with ordinary shares in the Company. Any unconverted units were redeemed with cash by the Group at a rate of US$25.4648 per unit, being US$25 plus interest.

Events subsequent to balance date

On November 29, 2007, the Group announced that it had agreed to acquire Great Western Bancorporation, the holding company of Great Western Bank, a regional bank based in Sioux Falls, South Dakota, for US$798 million. Great Western Bank has assets of approximately US$3.4 billion, around 800 employees and more than 100 branches across six states in the mid-west of the United States of America. The acquisition is subject to normal regulatory approvals and is currently planned for completion in the second half of the 2008 financial year.

No further matter, item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report that, in the opinion of the directors, has significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future developments

In the opinion of the directors, disclosure of any further future developments would be likely to result in unreasonable prejudice to the interests of the Group.

Proceedings on behalf of the Company

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of the Company by a member or other person entitled to do so under section 237 of the *Corporations Act* 2001 (Cth).

Environmental regulation

The operations of the Group are not subject to any site specific environmental licences or permits which would be considered as particular or significant environmental regulation under laws of the Australian Commonwealth Government or of an Australian state or territory.

The operations of the Group are however, subject to the *Energy Efficiency Opportunities Act* 2006 (Cth) and the *National Greenhouse and Energy Reporting Act* 2007 (Cth) as part of the legislative response to climate change. Whilst this legislation is not particular to the Group or significant in its impact, the Group is complying with its requirements. As a lender, the Group can also incur environmental liabilities arising from the operations of its borrowers and as a result it has developed credit policies to ensure that this risk is managed appropriately.

In addition to responding to regulatory requirements, the Group can perform a key role, as a global provider of financial products and services in contributing to the environmental sustainability of the communities in which it operates. The Group's approach to environmental sustainability and management of direct and indirect environmental impacts is outlined in its environmental policy at www.nabgroup.com. Further information on the Group's environmental management and commitments is outlined in the 2007 corporate responsibility review and the 2007 corporate responsibility detailed facts and information pack, both of which will be available at www.nabgroup.com.

Rounding of amounts

Pursuant to Class Order 98/100 made by the Australian Securities and Investments Commission (ASIC) on July 10, 1998, the Company has rounded off amounts in this report and the accompanying financial report to the nearest million dollars, except where indicated.

Report of the directors

Executive performance options and performance rights

Performance options and performance rights are granted by the Group under the National Australia Bank Executive Share Option Plan No. 2 (executive share option plan) and the National Australia Bank Performance Rights Plan (performance rights plan). The executive share option plan was approved by shareholders at the annual general meeting in January 1997, and the performance rights plan at the 2002 annual general meeting. *Refer to the remuneration report for a description of the key terms and conditions of the executive share option plan and the performance rights plan.*

All performance options and performance rights that have not expired are detailed below. Each performance option or performance right is for one fully paid ordinary share in the Company.

The number and terms of performance options and performance rights granted by the Company during 2007 over ordinary shares by the Group under the executive share option plan and the performance rights plan, including the number of performance options and performance rights exercised during 2007 are shown in the table below:

Grant date	Exercise period(1)	Exercise price(2)	Numbers held(3)	Numbers exercised during the period(4)	Numbers granted since October 1, 2006(5)
Performance options					
Mar 23, 2000	Mar 23, 2003 - Mar 22, 2008	$21.29	768,900	548,000	-
Sep 28, 2000	Sep 28, 2003 - Sep 27, 2008	$24.89	198,800	62,500	-
Mar 23, 2001	Mar 23, 2004 - Mar 22, 2009	$27.85	6,563,700	1,474,250	-
Sep 14, 2001	Sep 14, 2004 - Sep 13, 2009	$28.87	941,660	97,440	-
Jun 14, 2002	Jun 14, 2005 - Jun 13, 2010	$36.14	9,360,000	-	-
Mar 21, 2003	Mar 21, 2006 - Mar 20, 2011	$30.46	4,898,250	-	-
Aug 8, 2003	Mar 21, 2006 - Mar 20, 2011	$30.46	125,000	-	-
Oct 30, 2003	Mar 21, 2006 - Mar 20, 2011	$30.98	102,500	-	-
Jan 16, 2004	Jan 16, 2007 - Jan 15, 2012	$30.25	4,536,148	-	-
Jan 30, 2004	Jan 16, 2007 - Jan 15, 2012	$30.25	421,500	-	-
Jun 25, 2004	Jan 16, 2007 - Jan 15, 2012	$30.25	156,500	-	-
Jun 25, 2004	Jan 16, 2007 - Jan 15, 2012	$29.91	130,875	-	-
Sep 30, 2004	Sep 1, 2007 - Aug 31, 2009	$26.59	390,625	-	-
Dec 21, 2004	Sep 1, 2007 - Aug 31, 2009	$26.59	237,500	-	-
Feb 7, 2005	Feb 7, 2008 - Feb 6, 2010	$29.93	4,712,398	9,171	-
Feb 22, 2005	Feb 2, 2007 - Feb 1, 2009	$30.41	900,000	-	-
Apr 18, 2005	Feb 7, 2008 - Feb 6, 2010	$28.90	147,942	-	-
Apr 18, 2005	Feb 7, 2008 - Feb 6, 2010	$29.93	17,500	-	-
Jul 8, 2005	Feb 7, 2008 - Feb 6, 2010	$30.40	191,375	-	-
Jul 8, 2005	Feb 7, 2008 - Feb 6, 2010	$29.93	2,112	-	-
Dec 19, 2005	Feb 7, 2008 - Feb 6, 2010	$31.78	60,384	-	-
Feb 6, 2006	Feb 7, 2008 - Feb 6, 2010	$34.53	109,417	-	-
Feb 6, 2006	Feb 6, 2009 - Aug 6, 2011	$34.53	6,536,841	-	-
Feb 20, 2006	Feb 6, 2009 - Aug 6, 2011	$34.53	448,272	-	-
Feb 22, 2006	Feb 6, 2009 - Aug 6, 2011	$34.53	443,000	-	-
Mar 10, 2006	Feb 6, 2009 - Aug 6, 2012	$34.53	500,000	-	-
May 3, 2006	Feb 6, 2009 - Aug 6, 2011	$34.53	51,300	-	-
May 3, 2006	Feb 6, 2009 - Aug 6, 2011	$37.55	29,773	-	-
Jul 31, 2006	Feb 6, 2009 - Aug 6, 2011	$34.53	16,392	-	-
Jul 31, 2006	Feb 6, 2009 - Aug 6, 2011	$35.50	108,125	-	-
Oct 31, 2006	Feb 6, 2009 - Aug 6, 2011	$38.29	421,875	-	421,875
Nov 8, 2006	Feb 6, 2009 - Aug 6, 2011	$35.50	2,720	-	2,720
Feb 7, 2007	Feb 6, 2009 - Aug 6, 2011	$38.29	38,750	-	38,750
Feb 7, 2007	Feb 7, 2010 - Aug 7, 2012	$40.91	12,934,226	-	13,159,033
Aug 3, 2007	Feb 7, 2010 - Aug 7, 2012	$40.91	183,172	-	183,172
Aug 28, 2007	Feb 7, 2010 - Aug 7, 2012	$39.25	82,188	-	82,188
Aug 28, 2007	Feb 7, 2010 - Aug 7, 2012	$40.91	17,500	-	17,500
Aug 28, 2007	Feb 7, 2010 - Aug 7, 2012	$43.43	25,144	-	25,144

Grant date	Exercise period(1)	Exercise price(2)	Numbers held(3)	Numbers exercised during the period(4)	Numbers granted since October 1, 2006(5)
Performance rights					
Mar 21, 2003	Mar 21, 2006 - Mar 20, 2011	-	1,217,503	-	-
Aug 8, 2003	Mar 21, 2006 - Mar 20, 2011	-	31,250	-	-
Oct 30, 2003	Mar 21, 2006 - Mar 20, 2011	-	25,625	-	-
Jan 16, 2004	Jan 16, 2007 - Jan 15, 2012	-	1,119,754	-	-
Jan 30, 2004	Jan 16, 2007 - Jan 15, 2012	-	105,374	-	-
Jun 25, 2004	Jan 16, 2007 - Jan 15, 2012	-	71,844	-	-
Sep 30, 2004	Sep 1, 2007 - Aug 31, 2009	-	97,656	-	-
Dec 21, 2004	Sep 1, 2007 - Aug 31, 2009	-	59,450	-	-
Feb 7, 2005	Feb 7, 2008 - Feb 6, 2010	-	1,174,466	2,334	-
Feb 22, 2005	Feb 2, 2007 - Feb 1, 2009	-	210,000	-	-
Apr 18, 2005	Feb 7, 2008 - Feb 6, 2010	-	41,361	-	-
Jul 8, 2005	Feb 7, 2008 - Feb 6, 2010	-	48,372	-	-
Dec 19, 2005	Feb 7, 2008 - Feb 6, 2010	-	15,098	-	-
Feb 6, 2006	Feb 6, 2009 - Aug 6, 2011	-	1,597,813	-	-
Feb 20, 2006	Feb 6, 2009 - Aug 6, 2011	-	112,137	-	-
Feb 22, 2006	Feb 6, 2009 - Aug 6, 2011	-	110,750	-	-
Mar 10, 2006	Feb 6, 2009 - Aug 6, 2012	-	140,000	-	-
May 3, 2006	Feb 6, 2009 - Aug 6, 2011	-	20,269	-	-
July 31, 2006	Feb 6, 2009 - Aug 6, 2011	-	31,133	-	-
Oct 31, 2006	Feb 6, 2009 - Aug 6, 2011	-	105,470	-	105,470
Nov 8, 2006	Feb 6, 2009 - Aug 6, 2011	-	680	-	680
Feb 7, 2007	Feb 6, 2009 - Aug 6, 2011	-	9,688	-	9,688
Feb 7, 2007	Feb 7, 2010 - Aug 7, 2012	-	3,192,725	-	3,248,314
Aug 3, 2007	Feb 7, 2010 - Aug 7, 2012	-	45,802	-	45,802
Aug 28, 2007	Feb 7, 2010 - Aug 7, 2012	-	12,460	-	12,460

(1) *Performance options and performance rights generally expire on the last day of their exercise period. Refer to the remuneration report for details of the relevant expiry dates applicable to performance options and performance rights.*

(2) *During 2007, the terms of the National Australia Bank Performance Rights Plan were amended to change the exercise price payable for the performance rights from $1 per tranche exercised to $nil (following receipt of a waiver from the ASX from the relevant Listing Rules to amend the terms of the performance rights in this way). This applies to any performance rights exercised after September 26, 2007. For performance rights exercised prior to this date, the exercise price is $1 per tranche exercised on a particular day. Further details of performance options and performance rights are set out in note 37 in the financial report. All shares issued or transferred on exercise of performance options and performance rights are fully paid ordinary shares in the Company. The exercise price for performance options is based on the weighted average price at which the Company's shares are traded on the ASX during a specified period on a relevant date, usually at or around the date of the grant. Further details of the exercise price are set out in the remuneration report.*

(3) *The number of performance options and performance rights held as at September 30, 2007.*

(4) *Performance options and performance rights exercised during the period from October 1, 2006 to September 30, 2007.*

(5) *Performance options and performance rights granted during the period from October 1, 2006 to September 30, 2007.*

Performance options and performance rights on issue and number exercised

There are currently 56,459,809 performance options and 9,564,333 performance rights which are exercisable, or may become exercisable in the future, under the respective plans.

There were 2,193,695 fully paid ordinary shares of the Company issued during the year as a result of performance options and performance rights granted being exercised, for a total consideration of $57,368,082. There were 200,736 fully paid ordinary shares of the Company issued since the end of the year as a result of performance options and performance rights granted being exercised, for a total consideration of $4,843,596. The amount paid on issue of each of these shares is described above.

Persons holding performance options and performance rights are entitled to participate in certain capital actions by the Company (such as rights issues and bonus issues) in accordance with the terms of the ASX Listing Rules which govern participation in such actions by holders of options granted by listed entities. The terms of the performance options and the performance rights reflect the requirements of the ASX Listing Rules in this regard.

Report of the directors

Directors' attendances at meetings

The table below shows the number of directors' meetings held (including meetings of Board committees) and number of meetings attended by each of the directors of the Company during the year:

	Board meetings		Audit Committee meetings		Risk Committee meetings		Nomination Committee meetings		Remuneration Committee meetings		Directors' meetings of controlled entities[(1)]		Additional meetings[(2)]
Directors	A	B	A	B	A	B	A	B	A	B	A	B	B
MA Chaney	8	8	3	3	5	5	1	1	4	4	2	2	4
PA Cross	8	8	2	2	9	9	1	1	-	-	2	2	3
PJB Duncan	8	8	2	2	3	3	1	1	6	6	2	2	2
A Fahour	8	8	3	3	7	7	-	-	-	-	8	8	1
DT Gilbert[(3)]	8	8	3	3	3	3	1	1	4	4	2	2	5
TK McDonald	8	8	7	7	6	6	1	1	-	-	35	35	1
PJ Rizzo	8	8	7	7	9	9	1	1	-	-	2	2	3
JS Segal	8	8	2	2	9	9	1	1	6	6	2	2	1
JM Stewart	8	8	2	2	5	5	-	-	4	4	2	2	3
JG Thorn	8	8	7	7	6	6	1	1	-	-	2	2	2
GA Tomlinson[(4)]	8	8	6	6	1	1	1	1	2	2	22	22	3
MJ Ullmer	8	8	5	5	6	6	-	-	-	-	8	8	11
GM Williamson	8	8	2	2	4	4	1	1	-	-	15	15	-

A. *Indicates the number of directors' meetings (including meetings of Board committees) held during the year. Where a director is not a member of the relevant Board committee, this column reflects the number of meetings attended.*

B. *Indicates the number of directors' meetings (including meetings of Board committees) attended during the year.*

(1) *Where a controlled entity holds board meetings in a country other than the country of residence of the director, or where there may be a potential conflict of interest, then the number of meetings held is the number of meetings the director was expected to attend, which may not be every board meeting held by the controlled entity during the year.*

(2) *Reflects the number of additional formal meetings attended during the year by each director, including committee meetings (other than Audit Committee, Risk Committee, Remuneration Committee or Nomination Committee) where any two directors are required to form a quorum.*

(3) *Mr Gilbert resigned as a member of Principal Board Audit Committee after the Principal Board Audit Committee meeting held on November 29, 2006 and was appointed a member of the Remuneration Committee effective January 1, 2007.*

(4) *Mr Tomlinson resigned as a member of the Remuneration Committee after the Remuneration Committee meeting held on December 2, 2006 and was appointed a member of the Principal Board Audit Committee effective January 1, 2007.*

Report of the directors

Directors' and executives' interests

The tables below show the interests of each director and executive in the issued ordinary shares and National Income Securities of the Group, and in registered schemes made available by the Group as at the date of this report. No director or senior executive held an interest in Trust Preferred Securities, Trust Preferred Securities II, National Capital Instruments or exchangeable capital units of the Company.

Directors	Fully paid ordinary shares of the Company	Performance options over fully paid ordinary shares of the Company[(1)]	Performance rights over fully paid ordinary shares of the Company[(1)]	National Income Securities	Registered schemes
MA Chaney[(2)]	23,948	-	-	-	-
PA Cross[(2)]	12,296	-	-	-	-
PJB Duncan[(2)]	13,422	-	-	-	-
A Fahour	432,121	728,250	182,063	-	-
DT Gilbert[(2)]	10,406	-	-	1,253	-
TK McDonald	2,400	-	-	-	-
PJ Rizzo[(2)]	4,045	-	-	-	-
JS Segal[(2)]	11,516	-	-	180	-
JM Stewart	106,839	1,675,000	418,750	-	-
JG Thorn[(2)]	7,725	-	-	-	-
GA Tomlinson[(2)]	34,110	-	-	350	-
MJ Ullmer	66,243	411,514	102,879	-	-
GM Williamson	7,596	-	-	-	-

Senior executives[(3)]	Fully paid ordinary shares of the Company	Performance options over fully paid ordinary shares of the Company[(1)]	Performance rights over fully paid ordinary shares of the Company[(1)]	National Income Securities	Registered schemes
CA Clyne	17,079	271,250	67,813	-	-
MJ Hamar	20,199	143,875	35,970	-	-
JE Hooper	35,529	377,344	80,586	-	-
MA Joiner	108,292	303,125	57,032	-	-
LM Peacock	74,560	641,464	160,366	-	-
PL Thodey	23,106	684,512	108,628	-	-

(1) *Further details of performance options and performance rights are set out in note 37 in the financial report.*

(2) *Includes shares acquired under the Non-Executive Director Share Plan operated through the National Australia Bank Staff Share Ownership Plan.*

(3) *Senior executives in current employment with the Group as at September 30, 2007 where information on shareholdings is disclosed in note 48 in the financial report.*

There are no contracts, other than those disclosed above, to which directors are a party, or under which the directors are entitled to a benefit and that confer the right to call for or deliver interests in a registered scheme made available by the Company or a related body corporate. All of the directors have disclosed interests in organisations not related to the Group and are to be regarded as interested in any contract or proposed contract that may be made between the Company and any such organisations.

Past employment with external auditor

Ernst & Young has been the Company's external auditor since January 31, 2005. There is no person who has acted as an officer of the Group during the year who has previously been a partner at Ernst & Young when that firm conducted the Company's audit.

Non-audit services

Ernst & Young provided non-audit services to the Group during 2007. The fees paid or due and payable to Ernst & Young for these services during the year to September 30, 2007 are as follows:

	Group 2007 $'000
Non-Audit Fees	
Total audit-related fees regulatory	4,765
Total audit-related fees non-regulatory	3,935
Other non-audit fees	1,578
Total non-audit services fees	**10,278**

Ernst & Young also provides audit and non-audit services to non-consolidated securitisation vehicles sponsored by the Group, non-consolidated trusts of which a Group entity is trustee, manager or responsible entity and non-consolidated Group superannuation or pension funds. The fees paid or due and payable to Ernst & Young for these services during the year to September 30, 2007 total $2,784,282.

In accordance with advice received from the Audit Committee, the directors are satisfied that the provision of non-audit services during the year to September 30, 2007 by Ernst & Young is compatible with the general standard of independence for auditors imposed by the *Corporations Act* 2001 (Cth). The directors are so satisfied because the Audit Committee has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the independence of Ernst & Young.

A description of the Audit Committee's pre-approval policies and procedures is set out on page 37. Details of the services provided by Ernst & Young to the Group during 2007 and the fees paid or due and payable for those services are set out in note 49 in the financial report. A copy of Ernst & Young's independence declaration is set out on the following page.

Report of the directors

Auditor's Independence Declaration to the directors of National Australia Bank Limited

In relation to our audit of the financial report of National Australia Bank Limited (the Company) and the entities it controlled during the year (the Group) for the financial year ended September 30, 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act* 2001 (Cth) or any applicable code of professional conduct.

Ernst & Young

SJ Aldersley
Partner

December 6, 2007

Remuneration report

Remuneration Committee

Role

The Remuneration Committee charter (which is approved by the Board) sets out the membership, responsibilities, authority and activities of the Remuneration Committee. The charter is available at www.nabgroup.com.

The Remuneration Committee:

- monitors the Group's general reward strategy framework as approved by the Board, to ensure that its application continues to:
  - attract and retain top talent to deliver superior performance;
  - motivate employees to pursue the long-term growth and success of the Group within an appropriate control framework;
  - demonstrate a clear relationship between individual performance and total reward; and
- reviews and recommends to the Board:
  - Total Reward policies for the Group Chief Executive Officer, and for senior executives who report directly to him;
  - Total Reward packages in respect of the Group Chief Executive Officer and executive directors;
  - remuneration arrangements for non-executive Board directors;
  - the recruitment, retention and termination policies and succession planning processes for senior executives; and
- supports the Board with monitoring:
  - the principles and framework required for measuring the Group's behavioural standards;
  - diversity in the workplace and the culture of the Group.

The Board has delegated authority to the Remuneration Committee to approve:

- the introduction, modification, or deletion of any performance measure(s) that impacts the Group's employee short-term and long-term incentive programs;
- incentive pool amounts for general employee incentive programs;
- offers under existing employee share, performance option and performance rights plans, including setting terms of issue (within the total number of securities approved by the Board);
- operational amendments to the trust deeds and rules of such employee equity plans; and
- fees payable to non-executive directors of controlled entity boards.

Membership and meetings

The Remuneration Committee met seven times during the year *(attendance is set out on page 11)*. Committee members at September 30, 2007 were:

Mr Peter JB Duncan (Chairman);
Ms Jillian S Segal; and
Mr Daniel T Gilbert.

The Remuneration Committee invites the Chairman of the Board and members of management to assist its deliberations (except concerning their own remuneration). It also took specialist remuneration advice during the year from external advisers.

Reward philosophy

The Company's philosophy is to manage a Total Reward framework designed to:

- link employee rewards to creating sustainable value for shareholders;
- attract, recognise and foster top talent;
- recognise capabilities and promote opportunities for career and professional development;
- motivate people with energy and passion;
- reward those who deliver superior performance;
- provide fair and consistent rewards, benefits and conditions within an integrated global strategy;
- provide rewards that are competitive within the global markets in which the Group operates; and
- build a partnership between employees and other shareholders through employee ownership of Company shares and securities.

The structure of Total Reward – setting the nature of reward

Total Reward comprises fixed remuneration, and 'at risk' remuneration, which is made up of short-term incentive (STI) and long-term incentive (LTI). Each of these components is discussed in further detail in the following sections.

An appropriate target reward mix is determined for each management level with at risk rewards increasing with the level of responsibility and the criticality of the person's role.

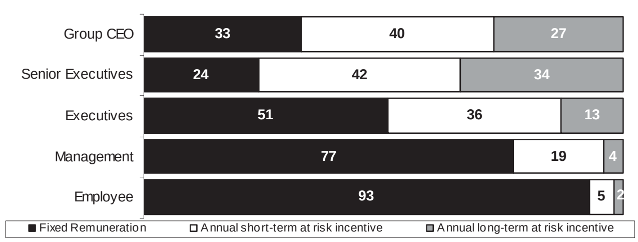
The target Total Reward mix for the Group Chief Executive Officer is:

- 25% to 35% fixed remuneration;
- 30% to 40% STI; and
- 30% to 50% LTI.

The target Total Reward mix for the senior executive team (Executive General Managers (EGMs)) is:

- 20% to 40% fixed remuneration;
- 25% to 50% STI; and
- 15% to 35% LTI.

The following graph shows the actual average percentage Total Reward mix for each level as at September 30, 2007. The mix for each individual may vary according to market relativity and with appropriate management approval.



This data is as at the point in time on September 30, 2007 and does not match annualised remuneration data shown elsewhere in this report. The categories used are based on internal Company definitions, with the Senior Executives category comprising direct reports to the Group CEO, i.e. the Group Executive Committee.

Market relativity – setting Total Reward benchmarks

The Group targets fixed remuneration at the market median (50th percentile) being paid in the finance industry in the global markets in which the Group operates and in any other relevant specialist markets. STI and LTI targets are set between the median and the upper quartile of the relevant market.

An individual's actual remuneration is set:

- within parameters approved by the Board and the Remuneration Committee (such as the size of STI pool described on the next page);
- by the degree of achievement of performance measures under the performance management framework; and
- by assessment of the individual's talent and potential under the executive talent framework.

The performance management and executive talent frameworks are set out in detail at www.nabgroup.com.

Individual performance and talent – the impact of the individual on Total Reward

The Group's performance management framework includes:

- setting 'quality gates', which are threshold measures for compliance and behaviour for each individual;
- setting corporate Key Performance Indicators (KPIs) for the Group, which roll down into individual KPIs for each employee via an individual scorecard. KPIs include both financial and non-financial measures; and
- a peer review process where peer managers compare and calibrate the performance of their collective group reports.

For management employees, the performance management process is followed with assessment under the executive talent framework. This considers an individual's potential capability, and identifies employees who can contribute to the organisation's performance through strong leadership behaviour as well as performance.

The performance management and executive talent frameworks are designed to drive superior rewards for employees who have the best relative performance and potential with:

- fixed remuneration levels set at a higher market percentile and in the higher part of the range;
- a greater STI multiple; and
- a larger LTI reward,

as described in the following sections.

Fixed remuneration linked to market measures

Up to 25% of employees may be ranked with the highest scores under the performance management framework. Their individual fixed remuneration may then be linked to higher fixed remuneration market measures (55th to 60th percentiles) rather than to median market measures. For all employees, individual remuneration is set between 80% and 120% around the applicable market percentile, but the 100% to 120% part of the range is limited to exceptional circumstances and these higher scoring performers.

Short-term incentive (STI) rewards

The Group measures each employee's performance firstly against their individual scorecard (KPIs) and then against the scorecard outcomes for their peers. Each scorecard is a balance of measures including financial, customer, community, employees, process improvements and quality. The measures are selected for their alignment to the Group's direction. Through the scorecard approach and subsequent peer review, the STI program is structured to reward the highest achievers against key individual, business and Group performance outcomes.

To receive an STI reward, a person must generally achieve a threshold level of performance and achieve their specified quality gates (as described above). Their performance relative to that of their peers may earn rewards between zero and two times their STI Target amount (referred to as their STI multiple). Only the most outstanding performers (10% or less employees) may receive an STI multiple of more than 1.6. The total for all employees is limited to the size of the funded STI pool (described below).

Executive directors must receive at least half of any STI reward as Company shares (subject to any required shareholder approval). This aligns their outcomes with shareholder interests. Specific terms (including restrictions and forfeiture conditions) apply to the shares for the Group CEO.

The majority of employees receive any STI reward above their STI Target as Company shares (subject to legal or tax constraints and to nominal threshold values). These Above Target shares:

- are held in trust with restrictions on employees trading for at least one year; and
- are subject to forfeiture conditions including on resignation, termination for serious misconduct, or for not achieving individual quality gates in the first year after allocation.

Australian employees are able to nominate a longer holding period of up to 10 years, with forfeiture only on termination for serious misconduct during this extended period.

The employee receives any dividends paid on these shares. The Remuneration Committee believes these restrictions instil an appropriate focus on Group performance beyond the current year, help to ensure that targets are consistently achieved and encourage an appropriate level of shareholding by employees.

Employees in Australia may express a preference to receive a portion of their STI reward (up to their target) in cash, superannuation contributions or in Company shares (or a combination of these) under the Up to Target program. This does not apply to employees overseas. Up to Target shares are held in trust with restrictions on trading for between one and ten years (unless the employee leaves the Group earlier) with the shares forfeited on termination for serious misconduct involving dishonesty. Employees receive any dividends on the shares.

Long-term incentive (LTI) rewards

In shares:

Most employees participate in the general share-based LTI program (subject to minimum service criteria). The Remuneration Committee determines the program's value based on Group performance, which was measured by movement in Economic Value Added (EVA®) for the 2001 to 2004 offers and by a balanced scorecard of outcomes for the 2005 to 2007 offers including cash earnings. The shares are held in trust with restrictions on employees trading for three years, though they receive any dividends. *EVA® is a registered trademark of Stern Stewart & Co.*

In performance options and performance rights:

LTI in the form of performance options and performance rights is a key mechanism for recognising executive potential and talent in the Group. It is primarily offered to two groups of employees: management (less than 5,000 individuals); and the top 5% of the Group's salesforce. Details of the terms and conditions for LTI on issue are shown on page 19.

The executive talent framework provides an objective basis for determining appropriate long-term rewards. Through this process, individual LTI allocations transparently recognise current contribution, future capability and potential contribution to the Group's performance over coming years. An executive's talent score will determine the individual's eligibility for an LTI reward and the amount granted.

Joining and retention awards

Commencement awards are only entered into with Executive General Manager (EGM) approval, to enable buy-out of equity from previous employment for significant new hires. The amount and timing of any benefits must be based on evidentiary information. The awards are primarily provided in the form of Company shares, performance options and performance rights, subject to restrictions and certain forfeiture conditions, including forfeiture on resignation. Cash is only used in limited circumstances.

Similarly, the Company provides limited retention awards (with EGM approval) for key individuals in roles where retention is critical over a medium-term timeframe (two to three years). These are normally provided in the form of shares with a minimum two-year restriction period, subject to performance standards and certain forfeiture conditions, including staggered forfeiture on resignation before key milestones are achieved.

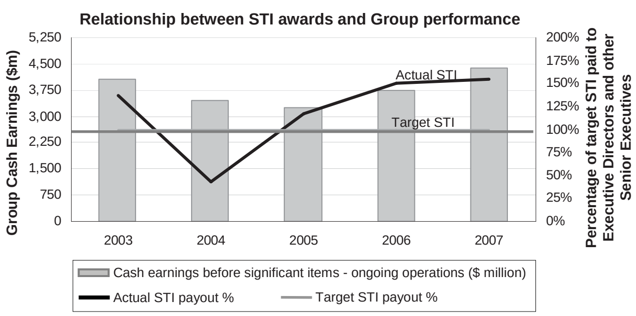
The impact of collective performance on Total Reward

Size of the STI reward pool

For 2007, the performance of the Group and the size of the pool for STI payments is determined by growth in cash earnings (before significant items – ongoing operations) and return on equity (ROE). The combination of these measures correlates closely with Total Shareholder Return (TSR) as defined on page 19 but can also be measured on a regional basis.

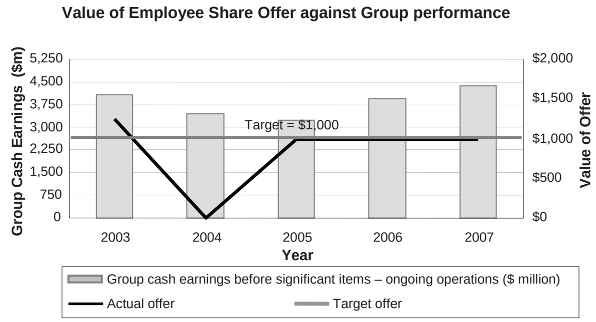
The Group's annual operating plan and the STI pool measures and targets are approved by the Board. At the end of the performance period, the Remuneration Committee then determines the size of the STI reward pool, taking into account the quality of the business result and the agreed performance sensitivities. If Group performance falls below the target level, the size of the STI reward pool will decrease more quickly than the rate at which it increases when Group performance rises above target level.

The following graph shows the average of individual STI payments (as a % of individual STI Target) for executive Key Management Personnel (KMP) as defined on page 21, and how the average related to the Group's cash earnings (before significant items - ongoing operations) from 2003 to 2007:



LTI reward in Company shares

In December 2007, the Company will allocate approximately $1,000 in Company shares to most employees under a general employee share offer, in respect of Group performance against a scorecard of objectives for the 2007 financial year. The following graph shows the approximate value of the share award over the last 5 years compared with Group cash earnings (before significant items – ongoing operations).



The target annual offer (i.e. for 'on target' Group performance) is A$1,000, with the actual offer value varying according to the actual level of Group performance.

LTI reward in performance options and performance rights

During 2007, performance hurdles for performance options and performance rights for the most senior 80 (approximately) positions were linked to TSR performance compared with the TSR performance of companies in two peer groups: top 50 companies and top financial services companies. TSR and the determination of the peer groups are described on page 19 and peer group lists available at www.nabgroup.com.

Performance hurdles for performance options and performance rights granted to other management employees were based on Total Business Return (TBR), being a combination of regional ROE performance and regional cash earnings (RCE) growth against targets set in each regional business plan.

All of these performance hurdles are measured over a three to five year period, aligning any rewards for employees to the outcomes for other shareholders over the same timeframe. The value of any LTI reward (if and when any securities vest) also depends on the market value of the Company's ordinary shares at the time of exercise. The combination of performance options and performance rights is designed to reduce the number of securities issued. Fewer performance rights are issued as they have a higher financial value than traditional performance options. Performance rights now have no exercise price, so they continue to motivate employees even when the share price is below the strike price of the performance options, as long as they vest, which relies on the attached performance hurdles being achieved.

Full details of terms and conditions of LTI allocations since 2000 are shown on page 19, which includes details of terms altered since the grant date including the exercise price of performance rights. The link between Company performance and LTI reward received by executives is demonstrated overleaf. The grant date fair valuation model used is detailed on page 27.

The terms of the Group's Insider Trading Policy specifically prohibit directors and employees from protecting the value of unvested LTI with derivative instruments. Employees are able to protect the value of vested LTI in limited circumstances. Further details on the Insider Trading Policy are set out in the Corporate Governance section.

Review of the LTI program for 2008 to ensure ongoing cultural change and to support the regional model

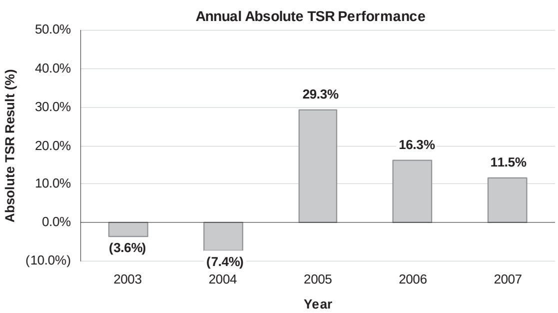
The Remuneration Committee reviews the structure of the LTI program annually. It seeks advice from external remuneration advisers, considers best practice in the Australian and international markets, considers market commentary and consults with stakeholders. This year's review is designed to support the regional business model, to simplify the model and improve alignment and line of sight between individual participants and their impact on the business, and to better align costs of the program with potential benefits for employees.

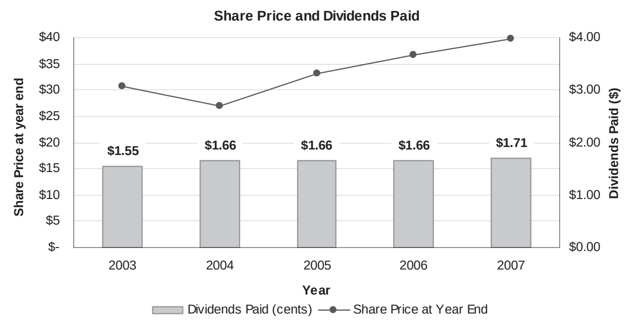
For the majority of management employees (other than KMP), the changes involve allocation of LTI performance shares rather than of performance options and performance rights. The LTI performance shares will be held in trust with restrictions on trading, and are forfeited if the three-year performance hurdles are not met. Under the new approach, the number of securities allocated will be significantly reduced, and closer alignment to other shareholders achieved due to dividends received by employees during the performance period. The performance hurdle on all LTI performance shares will be based on achievement of three-year ROE against regional operating plans, with threshold Cash Earnings measures which collectively ensure the quality of the results. Achievement of a three-year stretch Group Cash Earnings target (in addition to achievement of a regional ROE target) may trigger an additional allocation of shares to employees in that region.

For executive KMP (other than the Group Chief Executive Officer), half of the value of any LTI award will be in the form of performance shares as described above (with a Group ROE target and Group Cash Earnings threshold and target). The remaining half of the allocation will be provided in performance options with the same relative TSR performance hurdle as used in 2007, as described on the previous page and in the table overleaf.

Company performance and the value of LTI granted

The graphs below show absolute annual TSR performance, share price growth and dividends received by shareholders within each of the last five financial years.





The table below shows the value of LTI rewards from the main grants made to employees from 2000 to 2004. The table includes the three-year absolute TSR from grant to initial test date for each allocation. It illustrates the link between long-term performance of the Group and individual reward (the value of each option at the initial test date). The table also tracks the relative TSR performance (as at September 30, 2007) of more recent grants, which are not yet in the testing period.

	Vesting			Value on vesting			Shareholder wealth		
Allocations not yet in testing period									
Year of allocation	Start of test period	Average relative TSR percentile at Sep 30, 2007			Exercise price of options		Dividends from grant to Sep 30, 2007	Share price movement from grant to Sep 30, 2007	Absolute TSR result from grant to Sep 30, 2007[(2)]
2007	February 7, 2010	23rd			$40.91		$0.87	$(1.26)	(1)%
2006	February 6, 2009	53rd			$34.53		$2.54	$6.16	27%
2005	February 7, 2008	30th			$29.93		$4.20	$10.12	52%
Allocations in testing period									
Year of allocation	Start of test period	Relative TSR percentile ranking at initial test date	Percentage of options that vested at initial test date[(1)]	Closing share price at test date	Exercise price of options	Value of each option at initial test date	Dividends from grant to initial test date	Share price movement from grant to initial test date	Three-year absolute TSR from grant to initial test date[(2)]
2004	January 16, 2007	18th	0%	$40.26	$30.25	-	$4.99	$10.01	57%
2003	March 21, 2006	14th	0%	$36.00	$30.46	-	$4.95	$5.54	39%
2002	June 14, 2005	12th	0%	$30.97	$36.14	-	$4.87	$(5.17)	-
2001	March 23, 2004	50th	50%	$31.45	$27.85	$3.60	$4.45	$3.60	29%
2000	March 23, 2003	88th	100%	$30.90	$21.29	$9.61	$4.05	$9.61	65%

(1) *For each of the vested allocations (2000 and 2001) shown in the table, vesting has only occurred on the initial test date as shown. Although the hurdles are tested on an ongoing basis, no further vesting has occurred, and no vesting has occurred in respect of the 2002 to 2004 grants as shown.*

(2) *Absolute TSR movement is calculated on the basis that all dividends and distributions are reinvested in Company shares.*

Summary of all long-term equity instruments on issue

<table>
<tr><th rowspan="2">Terms and conditions</th><th colspan="6">Grant dates</th></tr>
<tr><th>March 2000 – September 2001</th><th>June 2002</th><th>March 2003 – June 2004</th><th>September 2004 – December 2005</th><th>February 2006 – December 2006</th><th>February 2007 – September 2007</th></tr>
<tr><td>Securities granted</td><td colspan="2">Performance options</td><td colspan="4">Performance options and performance rights</td></tr>
<tr><td>Exercise Price</td><td colspan="2">Weighted average of prices at which ordinary Company shares were traded on the ASX during the one week up to and including the allocation date.</td><td colspan="4">For the performance options, the exercise price is generally as shown on the left, unless the allocation is a “make-up” allocation in relation to a previous grant (in which case a previous date may be used). For the performance rights the exercise price is now nil. The performance rights plan terms were amended in 2007, for administrative simplicity, to change the exercise payable from $1 per batch exercised on any particular day (following receipt of a waiver from the ASX from the relevant listing rules to amend the terms of the performance rights plan in this way).</td></tr>
<tr><td>Frequency of offers</td><td colspan="6">One major annual allocation of LTI awards, with other, smaller grants (as required) generally for executives who join the Group after the annual allocation.</td></tr>
<tr><td>Basis for determining individual allocations</td><td colspan="2">Based on seniority and assessed future value of the individual.</td><td colspan="4">Based on individual assessments of performance and potential under the Group’s annual Executive Talent Review.</td></tr>
<tr><td>Restriction period</td><td colspan="2">There is an initial restriction period of three years, when no performance testing is performed.</td><td colspan="4">The restriction period may be less than three years (but greater than two) for grants that refer to a previous performance hurdle date, e.g. grants in August 2007 had an ‘effective date’ of February 2007, and refer back to the February 2007 performance hurdle for determination of vesting. So for those grants, the restriction periods are less than three years.</td></tr>
<tr><td>Performance testing period</td><td colspan="4">The restriction period is followed by a performance period during which the performance hurdle is tested up until three months before the expiry date.</td><td colspan="2">The performance hurdle is tested on three occasions over a 24 month performance period – which ends six months before the expiry date.</td></tr>
<tr><td>Expiry date of securities</td><td colspan="2">The securities lapse on the eighth anniversary of the grant date. Vested securities may be exercised until the expiry date. Any securities that do not vest in the performance period lapse.</td><td>When an ‘effective date’ is used, and the restriction period is shorter than three years (as above), then the expiry date will also be earlier than eight years.</td><td>The securities will lapse on the fifth anniversary of the date of grant (unless an ‘effective date’ and shorter restriction period applies as above).</td><td colspan="2">The securities will lapse five years and six months after the date of grant (unless an ‘effective date’ and shorter restriction period applies as above).</td></tr>
<tr><td>Performance hurdle measures</td><td colspan="4">Total Shareholder Return (TSR) - that is, the return a shareholder receives through dividends (and any other distributions) plus capital gains over the relevant period. It is calculated on the basis that all dividends and distributions are reinvested in Company shares.</td><td>The previous TSR performance hurdle remains for the 80 most senior positions in the Group. For all other employees, for performance options the hurdle is regional ROE and Cash Earnings (RCE) growth against three to five year business plan, and for performance rights it is Group EPS growth against a financial services peer group.</td><td>The TSR performance hurdle remains for the 80 most senior positions in the Group. The performance hurdle measure for performance options and performance rights all other employees is regional Total Business Return (TBR) performance against three to five year business plan.</td></tr>
<tr><td>Reasons for the performance hurdles</td><td colspan="4">The TSR hurdle was considered most relevant for shareholders over the medium to long-term and particularly relevant for the most senior executives in the Company.</td><td colspan="2">The regional ROE, RCE and TBR performance measures are intended to significantly increase the line of sight between business performance and the performance outcomes for regional executives. This strongly supports the new regional business model.</td></tr>
<tr><td>Performance hurdle peer groups (peer group listing is available at www.nabgroup.com)</td><td colspan="3">The vesting (and exercise) of the securities is determined by growth in the Company’s TSR from the grant date, compared with that of the top 50 companies in the Standard & Poors (S&P) ASX100 by market capitalisation (excluding the Company and property trusts), determined as at the effective date of the grant.</td><td>Half the securities are tested against the top 50 companies as shown to the left. The vesting of the other half of the securities is determined by the Company’s TSR growth relative to the top 12 financial services companies in the S&P ASX200 by market capitalisation, excluding the Company, determined as at the effective date of the grant.</td><td colspan="2">For the 80 most senior positions in the Group, the TSR peer groups remain the same (as described to the immediate left).

For performance rights issued to other executives prior to February 2007, the EPS growth hurdle uses the same financial services peer group as used in the TSR hurdle.</td></tr>
<tr><td>Rationale for peer group selection</td><td colspan="3">Peer group selection attempts to approximate the types of companies that investors might choose as an alternative to investing in the Company.

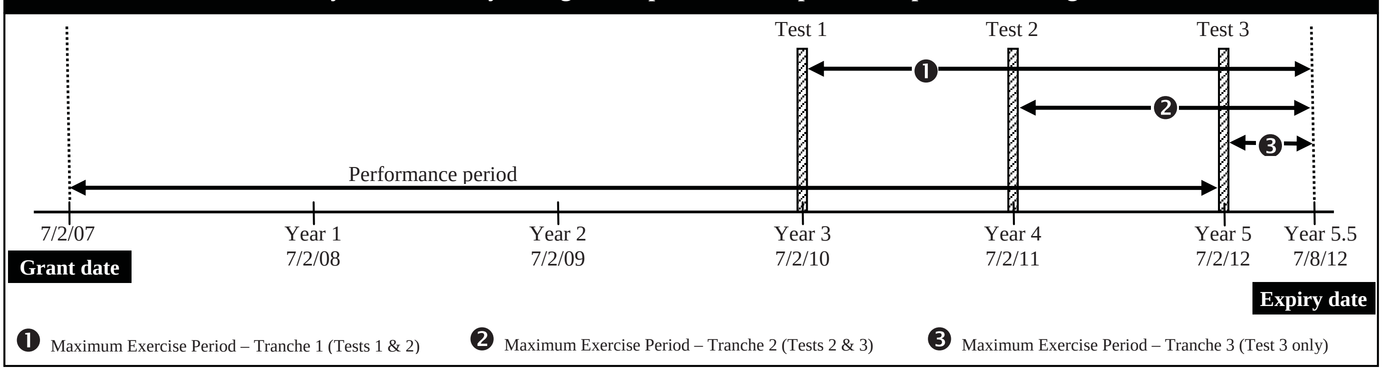
The size of the peer groups is an important consideration. A larger peer group helps to reduce volatility, and means that any change in the members of the group composition (due to liquidations, etc), should have less of an impact.</td><td colspan="3">Using two peer groups in tandem prevents the possibility of all of the securities vesting if the Company performs poorly relative to other organisations in the financial services business sector.

Using the same financial services peer group for both the TSR and the EPS hurdles (as described above) maintains a link between those outcomes for senior and other executives, and ensures that the EPS hurdle is equally challenging.</td></tr>
</table>

Terms and conditions	Grant dates					
	March 2000 – September 2001	June 2002	March 2003 – June 2004	September 2004 – December 2005	February 2006 – December 2006	February 2007 – September 2007
Testing the performance hurdles and reasons for choosing these testing methods	Each TSR comparison to the relevant peer group data is averaged over five trading days to prevent vesting being based on any short-term spike in TSR results. Performance is tested daily during the performance period - although for practical reasons, performance tests are generally conducted quarterly.		The TSR comparison is averaged over 30 trading days to better ensure that any short-term spike in TSR results does not impact on vesting.	In addition to the 30-day averaging, the relevant TSR percentile must be maintained for 30 consecutive trading days (i.e. vesting only occurs if there is sustained TSR performance).	Daily testing has been replaced with three separate hurdle tests at the 3^{rd}, 4^{th}, and 5^{th} anniversary of the grant (or 'effective') date. Tests use 30-day averaged TSR, and the best available RCE, ROE, TBR or EPS data for the Company (and EPS for peer organisations). Each participant's allocation is divided into three equal tranches, with tranche 1 tested on the 3^{rd} and 4^{th} anniversaries, tranche 2 tested on the 4^{th} and 5^{th} anniversaries, and tranche 3 tested only once, on the 5^{th} anniversary date. This change minimises retesting of the performance hurdle, yet maintains employee focus on a three to five year timeframe.	
Vesting of securities	Vesting occurs to the extent that the performance hurdle is satisfied as shown below. Vesting does not occur during the restriction period (unless the maximum life of the securities has been shortened due to the end of the individual's employment as described below).					
TSR performance hurdle vesting schedule	No vesting occurs below the 25^{th} percentile of the peer group. 25% of the securities vest at the 25^{th} percentile with 1% further vesting per percentile up to the point where half of the securities would vest at the 50^{th} percentile, and then 2% further vesting per percentile up to 100% vesting at (and above) the 75^{th} percentile.	No vesting occurs below the 50^{th} percentile performance of the peer group. Half of the securities vest at the 50^{th} percentile with 2% further vesting per percentile up to 100% vesting at (and above) the 75^{th} percentile.		No vesting occurs below the 51^{st} percentile performance of each peer group. Half of the securities vest at the 51^{st} percentile with 2% further vesting per percentile up to 100% vesting at (and above) the 76^{th} percentile.	For the TSR and EPS hurdle tests, no vesting occurs below the 51^{st} percentile performance of each peer group. 35% of the securities vest at the 51^{st} percentile with 2.6% further vesting per percentile up to 100% vesting at (and above) the 76^{th} percentile. For the ROE/RCE hurdle test, no vesting occurs if ROE is more than 1 percentage point below plan. Once this threshold is met, 35% of the performance options vest at 90% of RCE planned growth, with 2.2% further vesting per % achievement up to 100% of the options vesting when RCE growth is at (or above) 120% of plan. For the TBR hurdle test, 50% of the securities vest at 90% of TBR planned growth, with 2.5% further vesting per % achievement up to 100% of the securities vesting when TBR growth is at (or above) 120% of plan.	
Acquisition of shares	The terms of the performance options and performance rights were altered during 2007 to allow flexibility to enable shares to be either issued or purchased on market on exercise of the securities. Previously only newly issued shares would be provided.					
Lapsing of securities	Securities will lapse if unexercised on or before their expiry date. Securities will also generally lapse 90 days after an executive ceases to be employed by the Group - unless the Board determines otherwise, or that the securities may be retained (generally, only in cases of retirement, redundancy, contract completion, death, or total and permanent disablement).					
Conditions of retained securities	In the majority of cases, retained securities will only vest upon achievement of the attached performance hurdles. For some grants prior to March 2003 if an executive ceases employment with the Group as the result of death or total and permanent disablement, the securities may be automatically retained, and in a small number of these cases may be exercised regardless of the level of achievement of the performance hurdle.			Retained securities will only vest upon achievement of the attached performance hurdles. Where an individual's employment ceases during the restriction period, the remaining life of any retained securities (as above) may be shortened. This does not apply to securities provided on commencement, or in cases of death or total and permanent disablement.		
Board discretion	The Board may allow security holders to exercise the securities regardless of the normal criteria, including if certain events occur, including a takeover offer or announcement to the holders of fully paid ordinary shares in the Company.					

The following table illustrates the structure of the performance hurdle in relation to performance options and performance rights, which has applied to grants since February 2006. This example is based on the February 7, 2007 allocation.

Life cycle of February 2007 grant of performance options and performance rights



Remuneration for Key Management Personnel and named executives

Key Management Personnel (KMP)

The remainder of the Remuneration report shows remuneration information for the KMP of the Group and the Company as defined in AASB 124 'Related Party Disclosures' (AASB 124). These individuals have been divided into three separate groups for ease of reference:

- Non-executive directors, being those individuals listed on page 28;
- Executive directors, being Mr John M Stewart, Mr Ahmed Fahour and Mr Michael J Ullmer. The executive directors are all KMP both of the Company and of the Group. They were all KMP during 2006 and 2007; and
- Other senior executives, being those individuals shown in the table overleaf in addition to the executive directors, who have been members of the Group Executive Committee during 2007, and are all KMP both of the Company and of the Group. The individuals in this Group are the same as for 2006, with the inclusion of Mr Mark Joiner as a new KMP and member of the Group Executive Committee from April 10, 2007.

Named executives

The five named Company and Group executives (excluding executive directors) who received the highest remuneration for the year (under the *Corporations Act* 2001 (Cth)) are Mr Cameron A Clyne, Mr John E Hooper, Mr Mark A Joiner, Ms Lynne M Peacock and Mr Peter L Thodey.

Remuneration summary

The table overleaf summarises the remuneration arrangements for each individual for the financial year to September 30, 2007. Values are expressed in Australian dollars unless otherwise noted as agreed in each individual's employment agreement. This table is a new inclusion in this year's Remuneration report, and reflects individual remuneration arrangements as they are viewed by the Company. It does not use the valuation and amortisation methods set out under AASB 124 (such analysis commences on page 23).

The Company's remuneration policy and approach is set out previously in the Remuneration report. Additional specific information in relation to the executive directors and other senior executives is shown below.

Total Employment Compensation (TEC) shown in the table overleaf is the Group's primary measure of fixed remuneration. A portion of TEC may be taken in the form of packaged, non-monetary benefits (such as a motor vehicle and parking) and associated fringe benefits tax, and it includes both employer and employee superannuation contributions.

Mr Stewart's TEC is effective from January 2006, and will not be reviewed until October 2008. For the other individuals listed, TEC is reviewed annually with the most recent review in October 2007, effective in either January or in March 2008.

Short-term incentive (STI) remuneration is determined annually according to the Group's STI plan as set out on page 16. STI targets and performance measures for the executive directors are determined by the Board, and by the Group Chief Executive Officer for other senior executives. The Target STI percentage is set with reference to external and internal relativities, and is earned for 'on-target' individual and Group performance, subject to the passing of compliance and behaviour 'quality gates'.

- For Mr Stewart, the Board may elect to award an STI reward for exceptional individual performance of up to 1.5 times STI Target. At least half of this amount must be provided in the form of Company shares, and Mr Stewart may nominate a preference to receive the remaining half in cash, superannuation contributions, or in Company shares. These shares will be allocated subject to any required shareholder approval at the Company's Annual General Meeting (AGM) on February 7, 2008 (2008 AGM) on the terms and conditions set out in the Notice of Meeting.
- For the other individuals listed, Group ROE and Cash Earnings performance (as assessed by the Board) will determine the size of the resulting STI reward pool. The pool acts as a multiplier to the individual STI targets, of between zero and 1.5 times target (for exceptional Group performance). Individuals may nominate a preference to receive this amount in cash, superannuation contributions, or in Company shares under the Up to Target program. The Group Chief Executive Officer then assesses each individual's performance against their balanced scorecard of objectives, and applies a factor of between zero and 2.0 (for exceptional individual performance) which determines each individual's total STI reward. If an individual factor of more than 1.0 is applied, the amount in excess of 1.0 forms the Above Target STI amount.
  - Mr Fahour and Mr Ullmer are provided at least half of their total STI in the form of Company shares, with the terms of the Above Target program applying to any Above Target amount, and of the Up to Target program to any remaining shares. Any STI preference will therefore only apply to the other half of their total STI. The shares will be allocated subject to any required shareholder approval at the 2008 AGM on the terms and conditions set out in the Notice of Meeting.
  - For other senior executives, any Above Target STI amount must be provided in the form of Company shares, and these were allocated under the Above Target program in November 2007.

The cash portion of all of these STI rewards was paid in November 2007.

Long-term incentive (LTI) talent and potential assessments are made annually according to the Group's LTI plan - as set out on page 16. Continued LTI allocations are therefore not guaranteed. The allocations shown in the table overleaf are anticipated to be allocated in February 2008.

- Details of a tailored LTI reward of performance rights for Mr Stewart were announced to the ASX on August 31, 2007 and are set out in the Notice of Meeting for the 2008 AGM, including details of the applicable performance hurdles.
- For the other individuals listed, the Company's share price over the week following the 2008 AGM will determine the exercise price of the performance options, and also the number of LTI shares to be allocated. The performance hurdles for these KMP under the 2008 LTI program are detailed on page 18.

The granting of this LTI to the executive directors is subject to shareholder approval at the 2008 AGM. When each individual's employment with the Company ends, the retention of any performance options, performance rights or LTI shares will be determined according to the terms of each grant under the respective plans.

Other benefits: Executive directors and other senior executives are eligible to participate in other benefits that are normally provided to executives employed by the Company, subject to any overriding legislation prevailing at the time including the *Corporations Act* 2001 (Cth).

Remuneration Summary

Name	Position as at Sept 30, 2007	Term of agreement/contract and date commenced	Fixed remuneration (TEC) as at Sept 30, 2007	STI Target for FY07 (as % of TEC)	Actual STI for performance to Sept 30, 2007	LTI value based on assessments at Sept 30, 2007	Notice period[1] - Employee - Company
Executive directors							
John M Stewart	Director (executive) appointed August 11, 2003. Group Chief Executive Officer – commenced February 2, 2004	No fixed term. A new employment agreement was entered into in January 2006.	$2,750,000	100%	$1,631,500 in cash and $1,631,500 in shares based on an STI multiple of 1.19 (times STI target for FY07)	231,000 performance rights	Employee - 6 months Company - 6 months notice plus 12-month termination payment
Ahmed Fahour	Director (executive) commenced October 7, 2004. Executive Director and Chief Executive Officer, Australia – commenced September 1, 2004	4 years from September 1, 2004	$1,515,863	130%	$1,847,500 in cash and $1,847,500 in shares (STI multiple 1.88)	$2,730,000 in performance options and LTI shares	Employee - 13 weeks Company - 52 weeks
Michael J Ullmer	Director (executive) commenced October 7, 2004. Finance Director and Group Chief Financial Officer – commenced September 1, 2004	4 years from September 1, 2004	$1,060,967	100%	$729,500 in cash and $729,500 in shares (STI multiple 1.38)	$1,280,000 in performance options and LTI shares	Employee - 13 weeks Company - 52 weeks
Other senior executives							
Cameron A Clyne[2]	Managing Director and Chief Executive Officer, Bank of New Zealand – commenced March 10, 2007	No fixed term. Current contract commenced February 22, 2007	$705,000	100%	$881,250 in cash and $440,750 in shares (STI multiple 1.88)	$1,060,000 in performance options and LTI shares	Employee - 13 weeks Company - 52 weeks
Michael J Hamar	Group Chief Risk Officer	4 years from November 1, 2004	$725,661	80%	$725,661 in cash and $218,339 in shares (STI multiple 1.63)	$730,000 in performance options and LTI shares	Employee - 13 weeks Company - 26 weeks
John E Hooper	Chief Executive Officer, nabCapital	No fixed term	$800,000	130%	$1,300,000 in cash and $390,000 in shares (STI multiple 1.63)	$1,200,000 in performance options and LTI shares	Employee - 13 weeks Company - 52 weeks
Mark A Joiner	Group Executive General Manager, Development and New Business – commenced April 10, 2007	4 years from April 10, 2007	$750,000	100%	$937,500 in cash and $281,500 in shares (STI multiple 1.63)	$900,000 in performance options and LTI shares	Employee - 13 weeks Company - 52 weeks
Lynne M Peacock	Chief Executive Officer, United Kingdom	No fixed term	GBP 535,000	100%	GBP 668,750 in cash and GBP 67,250 in shares (STI multiple 1.38)	GBP 590,000 in performance options and LTI shares	Employee - 3 months Company - 12 months
Peter L Thodey[2]	Group Executive General Manager – commenced March 10, 2007	No fixed term. Current contract commenced March 1, 2007	$750,000	100%	$937,500 in cash and $94,500 in shares (STI multiple 1.38)	$900,000 in performance options and LTI shares	Employee - 6 months Company - 12 months

(1) *Termination payments are calculated as the Company notice period multiplied by TEC. These are payable if the Company terminates the executive's employment agreement on notice and without cause, and makes payment in lieu of notice. Termination payments are not generally payable on resignation, summary termination or unsatisfactory performance, although the Board may determine exceptions to this. The retention or forfeiture of performance options and performance rights on cessation of employment depends on the terms and conditions of grant as set out earlier in this report. Vesting and exercise of the securities remain subject to the applicable performance hurdle. Certain shares held in trust are forfeited in certain circumstances depending on each reward program (also set out earlier in this report).*

(2) *Mr Clyne and Mr Thodey changed position during the year, but acted as KMP for the full year to September 30, 2007.*

Report of the directors

Annualised remuneration for KMP

The following table has been prepared in accordance with AASB 124 for executive directors and other senior executives. It shows details of the nature and amount of each element of the remuneration paid or payable for services provided for the year to September 30, 2007 (including STI and LTI amounts in respect of performance during the year to September 30, 2007). All individuals listed are paid in Australian dollars - with the exception of Ms Lynne M Peacock, who is paid in GBP, converted here at a rate of A$1.00 = GBP 0.4105 for 2007 (2006: GBP 0.4150).

Data shown for Mr Mark A Joiner are adjusted to reflect only the portion of the year in which he acted in a KMP position (from April 10, 2007 as set out on the previous page). Full year figures are also provided for Mr Joiner, in regard to his inclusion as one of the five named executives under *Corporations Act* 2001 (Cth) as set out on page 21.

Performance options and performance rights in relation to the performance year to September 30, 2007 are anticipated to be granted in February 2008. No performance options or performance rights have been granted to the listed individuals since the end of 2007. No retirement benefits were paid or payable to the listed individuals in 2007.

		Short-term benefits			Post-employment benefits	Other long-term benefits(5)	Equity-based benefits		Termination benefits(8)	Total
		Cash salary fixed(1)	Cash STI at risk(2)	Non-monetary fixed(3)	Super-annuation fixed(4)		Shares at risk(6)	Options and rights at risk(7)		
		$	$	$	$	$	$	$	$	$
Executive directors										
JM Stewart	**2007**	**2,710,013**	**1,631,500**	**155,744**	**-**	**-**	**1,607,155**	**2,714,491**	**-**	**8,818,903**
	2006	2,505,339	1,472,500	113,948	80,000	-	1,578,235	2,655,020	-	8,405,042
A Fahour	**2007**	**1,597,701**	**1,847,500**	**4,389**	**38,473**	**-**	**1,982,740**	**1,360,222**	**-**	**6,831,025**
	2006	1,538,022	1,683,000	3,983	41,743	-	2,454,312	775,498	-	6,496,558
MJ Ullmer	**2007**	**981,500**	**729,500**	**7,474**	**105,191**	**-**	**919,519**	**779,355**	**-**	**3,522,539**
	2006	955,160	777,000	7,435	103,251	-	730,210	461,446	-	3,034,502
Other senior executives										
LM Peacock	**2007**	**1,066,168**	**1,629,111**	**417,670**	**250,929**	**-**	**521,691**	**1,269,592**	**-**	**5,155,161**
	2006	1,041,583	1,572,771	372,799	246,968	-	636,838	903,731	-	4,774,690
JE Hooper	**2007**	**836,746**	**1,300,000**	**-**	**20,277**	**40,011**	**425,391**	**570,271**	**-**	**3,192,696**
	2006	857,650	1,230,271	5,566	13,222	12,920	309,361	401,463	-	2,830,453
PL Thodey	**2007**	**729,700**	**937,500**	**19,958**	**116,213**	**-**	**164,012**	**765,899**	**-**	**2,733,282**
	2006	589,528	693,667	20,569	-	42,101	135,086	829,009	-	2,309,960
CA Clyne	**2007**	**762,646**	**881,250**	**70,110**	**42,941**	**-**	**287,915**	**536,124**	**-**	**2,580,986**
	2006	594,065	549,501	-	41,512	-	106,830	349,471	-	1,641,379
MA Joiner(9)	**2007**	**404,337**	**446,918**	**-**	**25,352**	**-**	**1,022,521**	**272,963**	**-**	**2,172,091**
	Full year 2007	*757,429*	*937,500*	-	*45,045*	-	*2,050,460*	*510,533*	-	*4,300,967*
MJ Hamar	**2007**	**613,134**	**725,661**	**46,566**	**106,348**	**-**	**135,624**	**259,856**	**-**	**1,887,189**
	2006	602,964	708,245	47,184	104,103	-	121,297	132,467	-	1,716,260
Total KMP	**2007**	**9,701,945**	**10,128,940**	**721,911**	**705,724**	**40,011**	**7,066,568**	**8,528,773**	**-**	**36,893,872**
Total KMP	2006	8,684,311	8,686,955	571,484	630,799	55,021	6,072,169	6,508,105	-	31,208,844

(1) *Includes cash salary and short-term compensated absences such as annual leave entitlements accrued but not taken during the year.*

(2) *Includes all STI provided in the form of cash as set out in the Remuneration Summary on the previous page. Amounts provided in the form of superannuation or Company shares are included in other columns as described below. Separate disclosure of the nature and value of STI rewards is included in the following section 'Short-term and long-term incentive remuneration'.*

(3) *Includes motor vehicle benefits and parking. Includes the provision of health fund benefits and moving expenses within Australia to Mr Stewart, and rental payments in New Zealand to Mr Clyne. Also includes approximately $370,000 for Ms Peacock in relation to UK National Insurance contributions. Fringe benefits tax on non-monetary benefits is included within the value of each benefit.*

(4) *Includes Company contributions to superannuation and allocations by employees made by way of salary sacrifice. Individuals based in Australia may also nominate to be provided part of STI in the form of additional Company superannuation contributions as described earlier in this report. No such elections were made by KMP for 2007. The Company is not required by Australian law to provide superannuation contributions in connection with Mr Stewart's employment due to the type of Australian visa issued to him. However, under the employment agreement, the Company agrees to pay annual superannuation contributions to the National Australia Bank Group Superannuation Fund. Mr Stewart has nominated to not receive such contributions in 2007. Superannuation contributions are also not required to be paid to individuals based in New Zealand, such as Mr Thodey in 2006, but such payments may be made as part of fixed remuneration, such as to Mr Clyne in 2007.*

(5) *Includes long service entitlements accrued but not taken during the year and is recognised once the employee has qualified for the entitlement. Mr Hooper became entitled to long service leave during the 2006 year, and the 2006 amount reflects a partial year's entitlement only. Amounts shown for Mr Thodey in 2006 represent a long service entitlement awarded in New Zealand on 25 years service.*

(6) *Represents the portions of share-based payments paid or payable to individuals and attributable to 2006 and 2007, and therefore do not reflect the payments made in respect of only those financial years. The value of each share allocation is spread over the length of time that forfeiture or performance conditions apply (vesting period). For example, shares granted to executives in November 2007 in respect of Above Target STI rewards for the performance year to September 30, 2007 (as set out in the Remuneration Summary on the previous page) are expensed over the period from October 1, 2006 (the start of the relevant performance period) through to November 22, 2008 (end of vesting period when the primary forfeiture conditions no longer apply).*

Amounts shown for 2007 include portions of: 2006 and 2007 Above Target shares and Up to Target shares provided under the Company's STI programs as described previously in this report; December 2006 General Employee Share Offer (also described previously) in New Zealand to Mr Thodey and in the United Kingdom to Ms Peacock, and amounts for Mr Clyne and Ms Peacock for the 2007 offer to be allocated in November 2007 (KMP based in Australia are not eligible for the corresponding Australian offer); Commencement shares (as described on page 17) provided to Mr Fahour in September 2004 and to Mr Joiner in October 2006 following the commencement of their employment with the Company; Retention shares (as described on page 17) provided to Mr Ullmer in February 2007 (following approval by shareholders at the Company's 2007 AGM) and to Mr Thodey in June 2007, and Mr Joiner and Ms Peacock in September 2007. The terms of Mr Thodey's award were subsequently altered to allow a mechanism for early release of the shares, in order for Mr Thodey to meet any tax obligations which might arise from the award.

For those shares listed above which were allocated during the year to September 30, 2007, the allocation dates (if not shown above) and the times when the primary forfeiture conditions may be satisfied and the shares "payable" are as follows: Above Target shares allocated to executive directors in February 2007 and to all other individuals in November 2007 payable in November 2008; Up to Target shares allocated to the executive directors in February 2007 payable immediately; General Employee Share Offer NZ allocated to Mr Thodey payable in December 2009; General Employee Share Offer UK allocated to Ms Peacock payable immediately (December 2006); Commencement shares allocated to Mr Joiner in three tranches, 60% payable in September 2007, 20% in September 2008, and 20% in September 2009; Retention shares to Mr Ullmer payable in January 2011, Retention shares to Mr Thodey payable in March 2010; Retention shares to Mr Joiner in two tranches, 50% payable in May 2009, and 50% in May 2011; Retention shares to Ms Peacock payable in August 2010. In addition, some offers may apply an additional restriction period, and many offers also allow Australian participants to nominate an extended holding period for tax deferral purposes. During these restriction periods, the shares can not be traded by continuing employees, and some forfeiture conditions apply (e.g. upon summary termination).

(7) *Performance options and performance rights are issued as part of the Group's LTI program and on the terms and conditions as described previously in this report. Allocations are generally made in the week following the AGM each year in respect of talent and potential assessments for the preceding performance year, and continued allocations are not guaranteed. The exercise price of the performance options is determined by the volume weighted average price of the Company's ordinary shares traded on the ASX over the week following the AGM. Performance options and performance rights were also provided to Mr Joiner in October 2006 following the commencement of his employment with the Company (on terms as described on page 19) and further allocations of performance options and performance rights were provided to him in August 2007 after his appointment to his current position (effective April 10, 2007) as set out later in this report. The amount included in remuneration each year is the grant date fair value which has been amortised on a straight line basis over the expected vesting period. An explanation of fair value basis used to determine remuneration is shown on page 27. Under AASB 124, only performance options and performance rights granted after November 7, 2002 and unvested at January 1, 2005 are included in the remuneration calculation.*

(8) *None of these KMP had post-employment benefits that required approval by members of the Company in accordance with the Corporations Act 2001 (Cth).*

(9) *Data shown in bold text represent only the portions of payments in respect of the period that Mr Joiner acted as KMP, from April 10, 2007 to September 30, 2007.*

In addition to remuneration benefits above, the Company paid an insurance premium for a contract insuring all KMP of the Company or Group (or both) as officers. It is not possible to allocate the benefit of this premium between individuals. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the premium paid.

Short-term and long-term incentive remuneration

The design of the share, performance option, and performance rights plans (and the expected outcome for executives) seeks to conform with the guidelines set out in 'Executive Share and Option Scheme Guidelines', Guidance Note 12, Investment and Financial Services Association, which specifies the key principles that should be considered in designing incentive schemes, and the process for shareholder approval of the schemes. The principal difference to the guidelines is that performance rights issued by the Company now have no exercise price (as described on page 19) and that any performance options whose exercise price is set at a date other than at the date of grant could potentially have an exercise price lower (or higher) than the market price prevailing at or around the date of grant. Such arrangements are primarily used where employees are excluded from an allocation due to administrative error, and included in a later allocation which references back to the exercise price of the missed allocation so as not to disadvantage those employees. The Group's various employee equity plans are discussed in detail in note 37 of the financial report. The following table analyses the amounts shown in the previous table, to show the proportions that are linked to Company performance.

		Performance-related remuneration			
		Cash-based	Equity-based		
	Remuneration not linked to Company performance(1)	Cash STI at risk	Shares at risk	Options and rights at risk	Total
	%	%	%	%	%
Executive directors					
JM Stewart	32%	19%	18%	31%	100%
A Fahour	24%	27%	29%	20%	100%
MJ Ullmer	31%	21%	26%	22%	100%
Other senior executives					
LM Peacock	33%	32%	10%	25%	100%
JE Hooper	28%	41%	13%	18%	100%
PL Thodey	32%	34%	6%	28%	100%
CA Clyne	34%	34%	11%	21%	100%
MA Joiner(2)	20%	21%	46%	13%	100%
MJ Hamar	41%	38%	7%	14%	100%

(1) *Includes cash salary (including short-term compensated absences such as annual leave entitlements accrued but not taken during the year), non-monetary benefits, superannuation, other long-term benefits, and termination benefits as shown in the annualised remuneration table on the previous page.*

(2) *Data for Mr Joiner related to period as KMP from April 10, 2007 to September 30, 2007.*

Report of the directors

Percentage of STI Target awarded in respect of the performance year to September 30, 2007

The following table shows the percentage of each individual's STI Target awarded, and the cash and share components.

	STI Target as % of fixed remuneration[1]	STI awarded as % of fixed remuneration	STI cash awarded 2007 $	STI cash awarded 2007 % of STI bonus	STI shares awarded 2007 $	STI shares awarded 2007 % of STI bonus	Total cash and shares 2007 $	Total cash and shares 2006 $
Executive directors								
JM Stewart[2]	96%	114%	1,631,500	50%	1,631,500	50%	3,263,000	2,945,000
A Fahour[2]	120%	225%	1,847,500	50%	1,847,500	50%	3,695,000	3,366,000
MJ Ullmer[2]	97%	133%	729,500	50%	729,500	50%	1,459,000	1,554,000
Other senior executives								
LM Peacock	75%	103%	1,629,111	91%	163,825	9%	1,792,936	2,361,446
JE Hooper	116%	188%	1,300,000	77%	390,000	23%	1,690,000	1,723,000
PL Thodey	87%	119%	937,500	91%	94,500	9%	1,032,000	763,646
CA Clyne	81%	151%	881,250	67%	440,750	33%	1,322,000	715,000
MA Joiner[3]	83%	135%	446,918	77%	134,195	23%	581,113	-
MJ Hamar	76%	123%	725,661	77%	218,339	23%	944,000	780,000

(1) *Includes cash salary (including short-term compensated absences such as annual leave entitlements accrued but not taken during the year), non-monetary benefits, superannuation, other long-term benefits, and termination benefits (as shown in the table on page 23). STI Target as a percentage of fixed remuneration therefore differs from the STI Target as a percentage of TEC as shown on page 22.*

(2) *The issue of the share component for executive directors may be subject to required shareholder approval.*

(3) *Data for Mr Joiner related to period as KMP from April 10, 2007 to September 30, 2007.*

Range of potential short-term and long-term incentive payments in respect of the performance year to September 30, 2007

The following table shows the composition and aggregate minimum and maximum values of STI and LTI payments earned by each individual in respect of the performance year to September 30, 2007.

	Short-term incentives (STI) Paid %	Forfeited[1] %	Deferred[2] %	Minimum deferred value[3] $	Maximum deferred value $	Long-term incentives (LTI) Minimum value (all deferred)[3] $	Maximum value (all deferred)[4] $
Executive directors							
JM Stewart	50%	-	50%	-	1,631,500	-	7,216,055
A Fahour	50%	-	50%	-	1,847,500	-	2,730,000
MJ Ullmer	50%	-	50%	-	729,500	-	1,280,000
Other senior executives							
LM Peacock	91%	-	9%	-	163,825	-	1,437,270
JE Hooper	77%	-	23%	-	390,000	-	1,200,000
PL Thodey	91%	-	9%	-	94,500	-	900,000
CA Clyne	67%	-	33%	-	440,750	-	1,060,000
MA Joiner[3]	77%	-	23%	-	134,195	-	900,000
MJ Hamar	77%	-	23%	-	218,339	-	730,000

(1) *All of the listed individuals have earned in excess of their Target STI for the 2006 performance year, with no portion of Target STI forfeited.*

(2) *Deferred STI is the shares component from the table above. The shares are held in trust with restrictions on trading for a minimum of one year (or longer if nominated by the employee). Various forfeiture conditions apply under the STI program as described previously in this report.*

(3) *Shares allocated as deferred STI rewards are subject to forfeiture conditions, and performance options and performance rights granted as LTI rewards lapse on cessation of employment or if performance hurdles are not achieved. The minimum deferred value for both is therefore shown as zero.*

(4) *The maximum deferred value of LTI rewards is the anticipated fair value of the equity anticipated to be allocated in February 2008. For the performance rights for Mr Stewart this is based on a valuation estimate by Mercer (Australia) Pty Ltd in September 2007, for the performance options is based on the fair value of recent allocations and for the LTI shares is the value that will be translated into shares using the volume weighted average price of the Company's ordinary shares traded on the ASX over the week following the AGM.*

Value of performance options and performance rights granted

The following tables show the value of performance options and performance rights issued to each individual as part of their remuneration that were granted, exercised, lapsed or vested during the year to September 30, 2007. The performance options and performance rights are rights to acquire ordinary Company shares, subject to certain conditions being met, under the Company's National Australia Bank Executive Share Option Plan No. 2 (executive share option plan) and the National Australia Bank Performance Rights Plan (performance rights plan). No performance options or performance rights are granted to non-executive directors. The terms and conditions of each performance option and right, including a summary of the performance hurdle required to be met in order to vest, are set out on page 19.

No amounts are paid by individuals for the issue of performance options and performance rights. All shares issued upon the exercise of performance options and performance rights are paid for in full by the individual based on the relevant exercise price. Under the executive share option plan, a loan may be available to executives if and when they wish to exercise their performance options, subject to applicable laws and regulations. The rules of the executive share option plan provide that the rate of interest on such a loan shall be the Company's base lending rate plus any margin determined by the Board. Dividends payable in respect of a share loan are applied firstly towards payment of any interest which is due, and secondly towards repayment of the principal amount outstanding under the loan.

	Number of performance options					Value of performance options			
	Granted	Grant date	Exercised	Lapsed	Vested	Granted[1]	Exercised[1]	Lapsed	Total
	No.		No.	No.	No.	$	$	$	$
Executive directors									
JM Stewart[2]	-	-	-	-	-	-	-	-	-
A Fahour	284,250	Jan 31, 2007	-	-	-	1,139,843	-	-	1,139,843
MJ Ullmer	152,514	Jan 31, 2007	-	-	-	611,581	-	-	611,581
Other senior executives									
LM Peacock	195,732	Feb 7, 2007	-	-	-	822,074	-	-	822,074
JE Hooper	120,000	Feb 7, 2007	-	-	-	504,000	-	-	504,000
PL Thodey	79,892	Feb 7, 2007	(50,000)	-	-	335,547	(245,500)	-	90,047
CA Clyne	97,500	Feb 7, 2007	-	-	-	409,500	-	-	409,500
MA Joiner	200,000	Oct 31, 2006	-	-	-	746,000	-	-	746,000
	28,125	Aug 3, 2007	-	-	-	75,469	-	-	75,469
	75,000	Aug 28, 2007	-	-	-	262,500	-	-	262,500
MJ Hamar	72,625	Feb 7, 2007	-	-	-	305,025	-	-	305,025

	Number of performance rights					Value of performance rights			
	Granted	Grant date	Exercised	Lapsed	Vested	Granted[1]	Exercised[1]	Lapsed	Total
	No.		No.	No.	No.	$	$	$	$
Executive directors									
JM Stewart[2]	-	-	-	-	-	-	-	-	-
A Fahour	71,063	Jan 31, 2007	-	-	-	1,295,480	-	-	1,295,480
MJ Ullmer	38,129	Jan 31, 2007	-	-	-	695,094	-	-	695,094
Other senior executives									
LM Peacock	48,933	Feb 7, 2007	-	-	-	913,743	-	-	913,743
JE Hooper	30,000	Feb 7, 2007	-	-	-	560,200	-	-	560,200
PL Thodey	19,973	Feb 7, 2007	-	-	-	372,964	-	-	372,964
CA Clyne	24,375	Feb 7, 2007	-	-	-	455,162	-	-	455,162
MA Joiner	50,000	Oct 31, 2006	-	-	-	979,668	-	-	979,668
	7,032	Aug 3, 2007	-	-	-	95,400	-	-	95,400
MJ Hamar	18,157	Feb 7, 2007	-	-	-	339,053	-	-	339,053

(1) *Value of performance options and performance rights granted or exercised is determined as the fair value at grant date multiplied by the total number of performance options or performance rights. The value of performance options and performance rights disclosed above represents the full value over the vesting period, which is greater than one year. Mr Thodey exercised 50,000 vested options in May 2007, which had been granted in March 2001 with a fair value at grant of $4.91 each (the exercise price paid was $27.85 per performance option which was set at the time of grant in 2001).*

(2) *No performance options or performance rights were allocated to Mr Stewart during 2007. In August 2007, the Company announced a grant of performance rights for Mr Stewart, subject to approval at the 2008 AGM on February 7, 2008 on the terms and conditions set out in the Notice of Meeting.*

Fair value basis used to determine equity remuneration

The disclosure of the allocation of grant date fair value of performance options and performance rights in the earlier tables is based upon the requirements of AASB 124. Under these guidelines, each year a portion of the fair value of all unvested performance options and rights is included in the individuals' remuneration for disclosure purposes. This portion of the fair value is based on a straight-line allocation of fair value over the vesting period of each unvested performance option or performance right.

Performance options and rights granted as part of executive remuneration have been valued using a numerical pricing model. The model takes account of factors including: the exercise price(s); the current level and volatility of the underlying share price; the risk-free interest rate; expected dividends on the underlying share; current market price of the underlying share; and the expected life of the securities. As they are market-based performance hurdles, the probability of the performance hurdle being reached has been taken into consideration in valuing the securities. *For further details, refer to note 1 in the financial report.* The fair value and exercise price per performance option and performance right (at grant) are set out below for grants provided to executive directors and other senior executives.

Grant date	Performance options		Performance rights		Exercise period[(2)]	
	Fair value	Exercise price	Fair value	Exercise price[(1)]	From	To
	$	$	$	$		
October 31, 2006[(3)]	$3.73	$38.29	$19.59	-	February 6, 2009	August 6, 2011
January 31, 2007[(4)]	$4.01	$40.91	$18.23	-	February 7, 2010	August 7, 2012
February 7, 2007	$4.20	$40.91	$18.67	-	February 7, 2010	August 7, 2012
August 3, 2007[(3)]	$2.68	$40.91	$13.57	-	February 7, 2010	August 7, 2012
August 28, 2007[(3)]	$3.50	$39.25	-	-	February 7, 2010	August 7, 2012

(1) *The performance rights terms were amended in 2007 for the purposes of administrative simplicity, following receipt of a waiver from the relevant ASX listing rules, and there is now no exercise price for performance rights. Previously, the total exercise price payable on the exercise of performance rights was $1 for the total number exercised on any one calendar day.*

(2) *These performance options and performance rights are granted in three equal tranches (apart from rounding). Each tranche has a different testing schedule, vesting period, and exercise period, and therefore a different fair value. The fair value listed in the table is the average for the three tranches making up the allocation, and the exercise period shown here is the total exercise period covering all tranches. All vested and unexercised securities lapse at the end of this exercise period. This is shown in the diagram on page 20.*

(3) *Commencement options and rights were allocated to Mr Joiner upon his commencement with the Company, prior to him becoming a KMP, in place of equities held with his previous employer. Due to his changing role and appointment to a KMP position in April 2007, an allocation of performance options and performance rights was provided in August 2007 which referenced the February 2007 exercise price received by other KMP and employees. An additional allocation of performance options was provided at the end of August 2007 which referenced the Company's share price end of the quarter in which he was appointed as KMP. Details of the numbers of units allocated are shown in the tables on the previous page.*

(4) *Approval of the granting of these performance options and performance rights to the executive directors was provided by shareholders at the AGM held on January 31, 2007. The grant date for the purposes of calculating the fair value and for equity-based payments purposes under AASB 124 is therefore January 31, 2007.*

Report of the directors

KMP (non-executive director) remuneration

For ease of reference, KMP (non-executive directors) are referred to as non-executive directors throughout the remainder of the Report of the directors.

The following persons were non-executive directors of the Group and Company at September 30, 2007:

Name	Position
MA Chaney	Chairman
PA Cross	Director
PJB Duncan	Director
DT Gilbert	Director
TK McDonald	Director
PJ Rizzo	Director
JS Segal	Director
JG Thorn	Director
GA Tomlinson	Director
GM Williamson	Director

There were no changes to the non-executive directors of the Group and Company during the year ended September 30, 2007.

Remuneration policy

The fees paid to non-executive directors on the Board are based on advice and data from the Group's remuneration specialists and from external remuneration advisers. This advice takes into consideration the level of fees paid to board members of other major Australian corporations, the size and complexity of the Group's operations, the activities of the Group and the responsibilities and workload requirements of Board members.

Fees are established annually for the Chairman and non-executive directors on the Board. Additional fees are paid, where applicable, for participation in Board committees and for serving on the boards of controlled entities. Since October 2005, the fees have included the Company's compulsory contributions to superannuation, and, since that date, there has been no increase in the fees paid to the Chairman and non-executive directors for their services to the Board.

The total fees paid by the Group to the Chairman and the non-executive directors on the Board, including fees paid for their involvement on Board committees and for, or in connection with, their services to controlled entities of the Company, are kept within the total approved by shareholders from time to time. The fees paid in this regard during the 2007 year totalled $3,398,546. Shareholders approved a maximum fee pool of $3.5 million per annum at the Company's AGM held on December 19, 2003. At the Company's 2008 AGM, shareholders will be asked to approve an increase in the existing maximum fee pool.

At the Company's AGM that was held in January 2007, shareholders approved the continuation of the non-executive directors' share arrangement under the Non-Executive Director Share Plan (which is operated through the National Australia Bank Staff Share Ownership Plan). Under this arrangement, shares are provided to Australian-resident non-executive directors as part of their remuneration. For all non-executive directors, a minimum of 10% of fees and a maximum of 40% is provided by way of shares issued to or acquired by the non-executive directors. The trustee of the National Australia Bank Staff Share Ownership Plan determines the issue date of shares under the Non-Executive Director Share Plan in its sole discretion.

During 2002, the Board decided not to enter into any new contractual obligations to pay retirement allowance benefits to non-executive directors appointed after December 31, 2002. At the Company's AGM held on December 19, 2003, a proposal was approved permitting non-executive directors of the Company and its controlled entities who had accrued retirement benefits, to apply those benefits, which were frozen as at December 31, 2003, to either cash (to be paid on retirement), to additional superannuation contributions or to the acquisition of shares in the Company (to be held in trust until retirement). Where non-executive directors elected to apply those benefits toward shares held in trust, the dividends earned on those shares are applied to the acquisition of further Company shares in the week up to and including the date of allocation, less $0.01, rounded down to the nearest whole number, on the Company's dividend payment date. No retirement benefits have been accrued by non-executive directors since January 1, 2004. In accordance with shareholder approval given at the Company's AGM on December 19, 2003 to freeze contractual entitlements, the value of accumulated retirement benefits of Mr Peter JB Duncan and Mr Geoffrey A Tomlinson were provided to them during 2004 in the form of shares to be held on trust until retirement. The value of the accrued benefits provided at that time was: Mr Duncan $104,855; and Mr Tomlinson $272,608. The dividends earned on those shares were applied to the acquisition of further Company shares as set out above. During 2007, 182 shares were acquired in this way in respect of Mr Duncan and 473 shares were acquired in respect of Mr Tomlinson. From December 31, 2003, neither new nor existing non-executive directors are entitled to additional retirement benefits.

Non-executive directors can elect to take part of their remuneration as additional Company superannuation contributions.

The appointment letters for the non-executive directors set out the terms and conditions of their appointments. These terms and conditions are in conjunction with, and subject to, the Company's Constitution and the charters and policies approved by the Board from time to time *(refer to the Corporate Governance section).*

KMP (non-executive director) remuneration

The following table shows details of the nature and amount of each element of the remuneration of each of the non-executive directors of the Company relating to services provided in the 2007 year. No performance options or performance rights have been granted to non-executive directors during or since the end of 2007.

		Short-term benefits			Post-employment benefits	Other long-term benefits	Equity-based benefits		Termination benefits	Total
Name		Cash salary and fees[(1)] fixed $	Bonus at risk $	Non-monetary fixed $	Super-annuation[(2)] fixed $	$	Shares fixed[(3)] $	Options and rights at risk $	$	$
MA Chaney	**2007**	**493,387**	**-**	**-**	**105,113**	**-**	**66,500**	**-**	**-**	**665,000**
	2006	497,913	-	-	100,587	-	66,500	-	-	665,000
PA Cross	**2007**	**86,615**	**-**	**-**	**42,385**	**-**	**86,000**	**-**	**-**	**215,000**
	2006[(4)]	104,414	-	-	10,253	-	64,500	-	-	179,167
PJB Duncan	**2007**	**89,167**	**-**	**-**	**92,708**	**-**	**43,125**	**-**	**-**	**225,000**
	2006	183,578	-	-	12,276	-	34,563	-	-	230,417
DT Gilbert	**2007**	**37,804**	**-**	**-**	**105,113**	**-**	**66,458**	**-**	**-**	**209,375**
	2006	48,692	-	-	80,308	-	86,000	-	-	215,000
TK McDonald	**2007**	**336,096**	**-**	**-**	**12,797**	**-**	**-**	**-**	**-**	**348,893**
	2006[(4)]	269,042	-	-	-	-	-	-	-	269,042
PJ Rizzo	**2007**	**188,497**	**-**	**-**	**50,003**	**-**	**26,500**	**-**	**-**	**265,000**
	2006	208,945	-	-	12,501	-	24,605	-	-	246,051
JS Segal	**2007**	**69,109**	**-**	**-**	**82,016**	**-**	**81,375**	**-**	**-**	**232,500**
	2006	138,849	-	-	12,276	-	81,375	-	-	232,500
JG Thorn	**2007**	**110,887**	**-**	**-**	**105,113**	**-**	**24,000**	**-**	**-**	**240,000**
	2006	165,688	-	-	46,253	-	30,976	-	-	242,917
GA Tomlinson	**2007**	**266,700**	**-**	**-**	**105,113**	**-**	**41,312**	**-**	**-**	**413,125**
	2006	270,779	-	-	12,276	-	119,214	-	-	402,269
GM Williamson	**2007**	**584,653**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**584,653**
	2006	561,446	-	-	-	-	-	-	-	561,446
Total	**2007**	**2,262,915**	**-**	**-**	**700,361**	**-**	**435,270**	**-**	**-**	**3,398,546**
	2006[(5)]	2,613,369	-	-	286,730	-	525,777	-	-	3,425,876

(1) *Non-executive directors' remuneration represents fees in connection with their roles, duties and responsibilities as a non-executive director, and includes attendance at meetings of the Board, Board committees and boards of controlled entities and includes payments of $133,893 (2006: $110,709) to Mr McDonald, $200,000 (2006: $191,852) to Mr Tomlinson and $394,653 (2006: $371,446) to Sir Malcolm Williamson in respect of services performed as non-executive chairmen of controlled entity boards and committees.*

(2) *Reflects compulsory Company contributions to superannuation and, where applicable, includes additional superannuation contributions made by the Company, in lieu of payment of fees, at the election of the non-executive director.*

(3) *Represents the value of newly-issued ordinary shares in the Company that were allocated to Australian non-executive directors. The price used to determine the number of shares was the volume weighted average price of the Company's ordinary shares traded on the ASX during the one week up to and including the date of allocation.*

(4) *Mrs Cross and Mr McDonald were appointed as non-executive directors in December 2005 and, accordingly, the remuneration shown is for the period December 1, 2005 to September 30, 2006.*

(5) *The 2006 Total shown is the total for non-executive directors disclosed in last year's annual financial report, and due to changes in non-executive directors during that year, does not equal the sum of the individual 2006 totals shown above.*

Report of the directors

KMP (non-executive director) fees

The total fees paid by the Group to non-executive members of the Board, including fees paid for their involvement on Board committees, are kept within the total pool approved by shareholders from time to time. The following table shows details of the components of non-executive directors' remuneration paid in the form of Board and committee fees:

	Board and committee remuneration						
	Board $	Audit Committee $	Risk Committee $	Remuneration Committee $	Nomination Committee $	Meetings of controlled entities $	Total $
Current							
MA Chaney	665,000	-	-	-	-	-	665,000
PA Cross	190,000	-	25,000	-	-	-	215,000
PJB Duncan	190,000	-	-	35,000	-	-	225,000
DT Gilbert(1)	190,000	6,250	-	13,125	-	-	209,375
TK McDonald(2)	190,000	25,000	-	-	-	133,893	348,893
PJ Rizzo	190,000	25,000	50,000	-	-	-	265,000
JS Segal	190,000	-	25,000	17,500	-	-	232,500
JG Thorn	190,000	50,000	-	-	-	-	240,000
GA Tomlinson(3)	190,000	18,750	-	4,375	-	200,000	413,125
GM Williamson(2)	190,000	-	-	-	-	394,653	584,653
Total	**2,375,000**	**125,000**	**100,000**	**70,000**	**-**	**728,546**	**3,398,546**

(1) *During the 2007 year, Mr Gilbert ceased to be a member of the Audit Committee and was appointed as a member of the Remuneration Committee.*

(2) *The fees that were paid to Mr McDonald and Sir Malcolm Williamson in respect of their services performed as non-executive directors of controlled entity boards and committees were paid in New Zealand dollars and Sterling respectively. The exchange rates used to convert those fees to Australian dollars were A$1.00 = GBP 0.4105 and NZ$1.1343 respectively.*

(3) *During the 2007 year, Mr Tomlinson ceased to be a member of the Remuneration Committee and was appointed as a member of the Audit Committee.*

Included in the table above is remuneration paid as Company shares. The price used to determine the number of Company shares was the volume weighted average price of the Company's ordinary shares traded on the ASX during the one week up to and including the date of allocation.

Certain disclosures required by AASB 124 are contained within this Remuneration report, which have been audited as required.

Report of the directors

Directors' signatures

This report of directors signed in accordance with a resolution of the directors:

Michael A Chaney
Chairman

John M Stewart
Group Chief Executive Officer

December 6, 2007

Corporate governance

The Board of directors of the Company is responsible for the governance of the Company and its controlled entities. Good corporate governance is a fundamental part of the culture and the business practices of the Group. The key aspects of the Group's corporate governance framework and main corporate governance practices for the 2007 year are outlined in this section.

The roles of the Board and management

The Board has adopted a formal charter that details the functions and responsibilities of the Board which may be found on the Group's website.

The Board's most significant responsibilities are:

Stakeholder interests

- guiding the Group in the interests of long-term sustainable returns for shareholders with regard to the interests of other stakeholders including customers, regulators, staff and the communities in the regions in which the Group operates; and
- reviewing and monitoring corporate governance and corporate social responsibility throughout the Group;

Strategy

- reviewing, approving and monitoring corporate strategy and plans;
- making decisions concerning the Group's capital structure and dividend policy; and
- reviewing, approving and monitoring major investment and strategic commitments;

Performance

- reviewing business results to deliver consistent business performance, transparency and accountability; and
- monitoring budgetary controls;

Integrity of external reporting

- reviewing and monitoring the processes, controls and procedures which are in place to maintain the integrity of the Group's accounting and financial records and statements; and
- reviewing and monitoring reporting to shareholders and regulators, including the provision of objective, comprehensive, factual and timely information to the various markets in which the Company's securities are listed;

Risk management and compliance

- monitoring and reviewing the risk management processes, Group risk appetite, the Group's risk profile and processes for compliance with prudential regulations and standards and other regulatory requirements; and
- reviewing and monitoring processes for the maintenance of adequate credit quality;

Executive review, succession planning and culture

- approving key executive appointments and remuneration, and monitoring and reviewing executive succession planning;
- reviewing and monitoring the performance of the Group Chief Executive Officer and senior management; and
- monitoring and influencing the Group's culture, reputation and ethical standards; and

Board performance

- monitoring Board composition, director selection, Board processes and performance with the Nomination Committee's guidance.

The Board has reserved certain powers to itself and delegated authority and responsibility to the Group Chief Executive Officer to manage the day-to-day affairs of the Group. These authorities are broad ranging and may be sub-delegated. Funding, project, credit and financial delegations are subject to strict limits. The Group Chief Executive Officer's authorities and responsibilities include:

- development and implementation of Board approved strategies;
- the achievement of operational plans within both a comprehensive risk management framework and the corporate principles; and
- sound relationship management with the Group's stakeholders.

Composition of the Board

The Board requires that each of its directors possess unquestionable integrity and character. The Nomination Committee assists the Board in identifying other appropriate skills and characteristics required for the Board and individual directors in order for the Company to fulfill its goals and responsibilities to shareholders and other key stakeholders.

The composition of the Board is based on the following factors:

- the Board will be of a size to assist in efficient decision making;
- the Chairman of the Board should be an independent non-executive director;
- the Chairman must not be a former executive officer of the Group;
- the Board should comprise a majority of independent non-executive directors; and
- the Board should comprise directors with a broad range of expertise, skills and experience from a diverse range of backgrounds including sufficient skills and experience appropriate to the Group's business.

The Board is composed of a majority of independent non-executive directors. There are three executive directors and ten independent non-executive directors. The role of Chairman and that of Group Chief Executive Officer are held by two separate individuals. The Chairman is an independent non-executive director and the Group Chief Executive Officer is an executive director. The other executive directors are the Executive Director and Chief Executive Officer, Australia and the Group Chief Financial Officer.

In 2006, APRA introduced Prudential Standard 520. This requires directors, senior management and auditors of an authorised deposit-taking institution to be assessed to determine whether or not they have the appropriate skills, experience and knowledge to perform their role. They also need to be able to establish that they have acted with honesty and integrity.

A 'Fit and Proper' policy that meets the requirements of the Prudential Standard has been approved by the Board and implemented by the Company. The assessment process includes police checks and confirming the authenticity of academic records and employment history. All 'responsible persons', as defined by the standard, have been assessed as meeting the criteria to ensure that they are 'fit and proper'.

The skills, experience, expertise and commencement dates of the directors are set out in the report of the directors.

Independence of directors

Directors are expected to bring independent views and judgment to Board deliberations. An independent director must be independent of management and free to exercise unfettered and independent judgment. They must provide all relevant information to allow a regular assessment of their independence.

In assessing whether a director is independent, the Board has regard to the standards it has adopted that reflect the independence requirements of applicable laws, rules and regulations, including the revised ASX Corporate Governance Council Principles and Recommendations published in August 2007 (revised ASX CGC Principles).

The Board considers that all of the non-executive directors are independent.

The non-executive directors regularly meet informally, without the Group Chief Executive Officer, other executive directors and other members of management present.

The independent directors are identified (with their period in office) in the report of the directors.

Disclosure of related party transactions is set out in note 47 in the financial report.

Appointment and re-election of Board members

The process for appointing a director is that, when a vacancy exists, the Nomination Committee identifies candidates with the appropriate expertise and experience, using external consultants as appropriate. The most suitable candidate is appointed by the Board but must stand for election by the shareholders at the next annual general meeting of the Company.

The Company has formal letters of appointment for each of its directors, setting out the key terms and conditions of the appointment.

The process for re-election of a director is in accordance with the Company's Constitution, which requires that, other than the Group Chief Executive Officer and those directors appointed during the year, one-third (or the nearest number to one-third) are required to retire by rotation at each annual general meeting and are eligible to stand for re-election. Directors appointed during the year to fill any vacancy must retire and stand for election.

Before each annual general meeting, the Board assesses the performance of each director due to stand for re-election, and the Board decides whether to recommend to the shareholders that they vote in favour of the re-election of each director.

The Board has set a limit of 10 years for which an individual may serve as a director, subject to an annual review after this period. The Board regards this as an appropriate period of service. *(The commencement dates of the directors are set out in the report of the directors on pages 3 to 6).* The retirement age for directors is fixed by the Company's Constitution at 70 years of age.

Induction and continuing education

Management, working with the Board, provides an orientation program for new directors. The program includes discussions with executives and management, reading material, tutorials and workshops. These cover the Group's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Conduct, its management structure, its internal and external audit programs, and directors' rights, duties and responsibilities.

Management periodically conducts additional presentations and tutorial sessions for directors about the Group, and the factors impacting, or likely to impact, on its businesses. These assist the non-executive directors to gain a broader understanding of the Group. Directors are also encouraged to keep up to date on topical issues.

Board meetings

The number of Board meetings and each director's attendance at those meetings are set out in the report of the directors. Directors are expected to prepare adequately for, attend and participate at Board meetings and meetings of Committees. Directors are also expected to attend site visits. The Board meets once a year in the United Kingdom and in New Zealand, where the Company has significant business interests. This allows directors to meet customers, employees and other stakeholders.

Performance of the Board, its committees and individual directors

The Board conducts an annual assessment of the performance and effectiveness of the Board as a whole and of its committees. Performance of each committee of the Board is initially discussed and reviewed within each committee and then subsequently reviewed as part of the Board's annual assessment.

External experts are engaged as required to review aspects of the Board's activities and to assist in a continuous improvement process to enhance the effectiveness of the Board. Results of the evaluations are compiled by an external expert to include a quantitative and qualitative analysis, and a written report is provided to the Chairman to review the performance of the Board. The external expert's report disclosing the results and the various issues for discussion and recommendations for initiatives are presented to the Board for discussion. Each director participates in individual interviews with the Chairman.

In 2007, performance evaluations for the Board, its committees and the individual directors have taken place in accordance with the process disclosed in this report.

Remuneration of directors

Shareholders determine the maximum total annual amount to be paid to non-executive directors. From this amount, the individual directors are remunerated based on a philosophy of compensating the directors at around the upper quartile of the market, having regard to the size and complexity of the Group.

The Remuneration Committee receives advice from independent experts on appropriate levels of director remuneration and guides the Board in respect of these matters.

The total directors' remuneration is disclosed as part of the shareholder approved aggregate amount and includes all statutory superannuation.

The remuneration policy for the Board and the remuneration of each director is set out in the remuneration report which forms part of the report of the directors.

Performance and remuneration of senior executives

The Company's performance management framework covers all senior executives of the Group, and entails the setting of a balanced scorecard of Key Performance Indicators (including both financial and non-financial measures), and threshold measures for compliance and behaviour ('quality gates') for each individual for the performance year. Performance discussions are conducted quarterly between each senior executive and their manager, with a formal mid year and end of year review process comparing and calibrating the performance of peers. These occurred during the year.

A more detailed description of the process for evaluating the performance of senior executives and the remuneration policy for senior executives is set out in the remuneration report.

Conflicts of interest

Directors are expected to avoid any action, position or interest that conflicts or appears to conflict with an interest of the Group. A director who has a material personal interest in a matter relating to the Group's affairs must notify the other directors of that interest.

The *Corporations Act* 2001 (Cth) together with the Company's Constitution require that a director who has a material personal interest in a matter that is being considered at a directors' meeting cannot be present while the matter is being considered at the meeting or vote on the matter, except in the following circumstances:

- the directors without a material personal interest in the matter have passed a resolution that identifies the director, the nature and extent of the director's interest in the matter and its relation to the affairs of the Company, which states that the remaining directors are satisfied that the interest should not disqualify the director from voting or being present;
- ASIC has made a declaration or order under the *Corporations Act* 2001 (Cth), which permits the director to be present and vote even though the director has a material personal interest;
- there are not enough directors to form a quorum for a directors' meeting because of the disqualification of the interested directors, in which event one or more of the directors (including a director with a material personal interest) may call a general meeting to address the matter; and
- the matter is of a type which the *Corporations Act* 2001 (Cth) specifically permits the director to vote upon and to be present at a directors' meeting during consideration of the matter notwithstanding the director's material personal interest.

Even though the *Corporations Act* 2001 (Cth) and the Company's Constitution allow these exceptions, the Group's corporate governance standards provide that when a potential conflict of interest arises, the director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while such matters are considered. Accordingly, in such circumstances the director concerned takes no part in discussions and exercises no influence over other members of the Board. If a significant conflict of interest with a director exists and cannot be resolved, the director is expected to tender his or her resignation after consultation with the Chairman.

Financial services are provided to directors under terms and conditions that would normally apply to the public. The provision of financial services to directors is subject to any applicable legal or regulatory restrictions, including the *Corporations Act* 2001 (Cth). *Refer to note 47 in the financial report for further information.*

Transactions with related and other non-independent parties

In the year to September 30, 2007, the Group had a number of related party transactions *(refer to note 47 in the financial report)*. These transactions were made in the ordinary course of business and were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons or charged on the basis of equitable rates agreed between the parties. These transactions did not involve more than the normal risk of collectability or present other unfavourable features.

Other non-independent parties are parties that are able to negotiate terms of transactions that are not on an arm's length basis, but do not meet the definition of a related party. The Group is not aware of any relationships or transactions with such parties that would materially affect its financial position or results of operations.

Access to management

Board members have complete and open access to management.

The Group Company Secretary provides advice and support to the Board and is responsible for the Group's day-to-day governance framework.

Access to independent professional advice

Written guidelines entitle each director to seek independent professional advice at the Company's expense, with the prior approval of the Chairman.

The Board can conduct or direct any investigation to fulfill its responsibilities and can retain, at the Company's expense, any legal, accounting or other services, it considers necessary to perform its duties.

Confidential information

The directors regard the confidentiality of customer information as highly important. The Group has a written policy about preserving confidentiality and fosters a culture to prevent the disclosure of confidential customer information outside the Group or the use of that information for the financial gain of any other entity (including any entity with which a director has an association).

Restrictions on dealings in securities

Directors, officers and employees are subject to the *Corporations Act* 2001 (Cth) restrictions on applying for, acquiring and disposing of securities in, or other relevant financial products of, the Company (or procuring another person to do so), if they are in possession of inside information. Inside information is that information which is not generally available, and which if it were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities in, or other relevant financial products of, the Group.

The Company has an established policy relating to trading in the Company's securities by directors, officers and employees. Directors, officers and employees are prohibited from trading in the Company's securities during prescribed blackout periods prior to the release of the Group's annual and half-yearly results announcements. Directors, officers and certain employees are further required to notify their intention to trade in the Company's securities prior to trading.

There are also legal restrictions on insider trading imposed by the laws of other jurisdictions that apply to the Group and its directors, officers and employees.

The Group expressly prohibits directors, officers and employees:
- taking derivatives over unvested performance based remuneration or short-term trading in any Company securities; and
- trading in the shares of any other entity if inside information on such entity comes to their attention by virtue of their position as a director, officer or employee of the Group.

Shareholding requirements

Within two months of appointment, a director must hold at least 2,000 fully paid ordinary shares in the Company. Non-executive directors must receive or acquire at market prices the equivalent of at least 10% and up to 40% of their annual remuneration in the form of shares in the Company. Under the National Australia Bank Staff Share Ownership Plan, Australian resident directors are provided these shares by salary sacrifice as approved by shareholders. Executive directors may receive shares, performance options, performance rights and performance shares as approved by shareholders.

Details of all shareholdings by directors in the Company are set out in the report of the directors and note 48 in the financial report.

Board and Committee Operations

Board and committee agendas

Board and committee agendas are structured to assist the Board to meet its significant responsibilities. This includes the Board's consideration of strategy and the approval and monitoring of financial and other goals. The Board receives a detailed overview of the performance and significant issues faced by each business and the major risk elements for review.

Directors receive and discuss detailed financial, operational and strategy reports from management.

Clear guidelines have been established to enable matters raised by regulators to be promptly and effectively addressed and referred to the Board if necessary.

Board committees

To help it carry out its responsibilities, the Board has established the following committees and has adopted charters setting out the matters relevant to the composition, responsibilities and administration of these committees:
- Risk Committee;
- Audit Committee;
- Remuneration Committee; and
- Nomination Committee.

Other matters of special importance in relation to which Board committees are established include consideration of borrowing programs, projects, capital strategies, major investments and commitments and capital expenditure.

The qualifications of each committee's members and the number of meetings they attended during the 2007 period are set out in the report of directors.

Risk Committee

Membership

The members of the Risk Committee are:

Mr Paul Rizzo (Chairman);
Ms Jillian Segal; and
Mrs Patricia Cross.

The members of the Risk Committee have a range of different backgrounds, skills and experience, to enable them to have oversight of the operational, financial and strategic risk profile of the Group.

Responsibilities and Risk Committee charter

The roles, responsibilities, composition and membership requirements are documented in the Risk Committee charter approved by the Board, which may be found on the Group's website.

The Risk Committee's responsibilities include:
- review and oversight of the risk profile of the Group within the context of the Board determined risk appetite;
- making of recommendations to the Board concerning the Group's risk appetite and particular risks or risk management practices of concern to the Committee;
- review of management's plans for mitigation of the material risks faced by the various business units of the Group; and
- promotion of awareness of a risk based culture and the achievement of a balance between risk minimisation and reward for risks accepted.

Activities during the year

At each scheduled meeting, the Risk Committee received a report from the Group Chief Risk Officer and updates in relation to key matters from the general managers of the Group's key risk functions, being Portfolio Management, Traded Market Risk, Non-Traded Market Risk and Operational Risk. The Group's capital management position was also reviewed on a regular basis with the Group Treasurer.

The Group has continued to strengthen its risk management processes. Key activities undertaken by the Risk Committee during the year include:
- review of the Group's key risks and risk management framework as developed by management;
- review of the strategic plan, budget and headcount of the Group's risk management function;
- review of the Group's 2007 risk appetite statement;
- review of the key outcomes from the Group's risk scenario analysis process and impact on the Group's risk profile;
- review of the certifications from management in relation to the Group's compliance with applicable prudential standard obligations;
- review of the certifications and assurances from internal audit and management in relation to the effectiveness of the Group's internal controls and risk management framework;

- meetings with the Group Chief Risk Officer without the presence of other members of management; and
- joint meetings of the Group's New Zealand and United Kingdom board risk committees to consider key local risk issues.

Senior representatives from the Company's external auditor, Ernst & Young and Internal Audit attended every scheduled meeting of the Risk Committee throughout the period.

The Risk Committee met nine times during the year.

More comprehensive details in relation to the Group's risk oversight and management of its material business risks are available on the Group's website.

Audit Committee

Membership

The members of the Audit Committee are:

Mr John Thorn (Chairman);
Mr Kerry McDonald;
Mr Paul Rizzo; and
Mr Geoffrey Tomlinson.

During the year, Mr Geoffrey Tomlinson and Mr Daniel Gilbert exchanged their positions on the Remuneration and Audit Committees respectively, effective January 1, 2007.

All members of the Audit Committee must be independent non-executive directors. Independence for these purposes is determined in accordance with the standard adopted by the Board, which reflects the independence requirements of applicable laws, rules and regulations, including those of the revised ASX CGC Principles.

It is considered appropriate that members of the Audit Committee be financially literate and have a range of different backgrounds, skills and experience, having regard to the operations, and financial and strategic risk profile, of the Group. The Board recognises the importance of the Audit Committee having at least one member with appropriate accounting or financial expertise, as required by applicable laws, governance principles, recommendations and listing standards. All members of the Audit Committee are financially literate.

Members are appointed for an initial term of three years. The Audit Committee must consist of at least three members. Membership is reviewed every three years. Periodic rotation is encouraged so that no more than one Committee member each year resigns as a result of periodic rotation.

The Chairman of the Board cannot be a member of the Audit Committee.

Audit Committee finance professional

Although the Board has determined that Mr Thorn has the requisite attributes defined under applicable governance principles and recommendations to be the nominated finance professional, his responsibilities are the same as those of the other Audit Committee members. He is not an auditor or accountant for the Company, does not perform 'field work' and is not an employee of the Company. The Audit Committee is responsible for the oversight of management in the preparation of the Group's financial statements and financial disclosures. The Audit Committee relies on the information provided by management and the external auditor. The Audit Committee does not have the duty to plan or conduct audits or to determine that the Group's financial statements and disclosures are complete and accurate. These are the responsibility of management and the external auditor.

Responsibilities and Audit Committee charter

The Audit Committee's role, responsibilities, composition and membership requirements are documented in the Audit Committee charter, which the Board has approved and may be found on the Group's website.

The Audit Committee is responsible for review and oversight of:

- the integrity of the accounting and financial reporting processes of the Group;
- the Group's external audit;
- the Group's internal audit; and
- compliance with applicable accounting standards to give a true and fair view of the financial position and performance of the Group.

The Audit Committee met seven times during the year.

The Audit Committee has the authority to conduct or direct any investigation required to fulfill its responsibilities and has the ability to retain, at the Company's expense, such legal, accounting or other advisers, consultants or experts as it considers necessary from time to time in the performance of its duties.

Activities during the year

Key activities undertaken by the Audit Committee during the year include:

- review of the scope of the annual audit plans for 2007 of the external auditor and internal auditor and oversight of the work performed by the auditors throughout the year;
- review of significant accounting, financial reporting and other issues raised by the internal and external auditors;
- oversight of the implementation of IFRS and Group Sarbanes Oxley regime;
- monitor controls posture across the Group;
- review of the performance and independence of the external auditor and internal auditor together with their assurance that all applicable independence requirements were met;
- holding of separate meetings without the presence of management with the Group General Manager, Internal Audit and key partners from Ernst & Young;
- consideration and recommendations to the Board on significant accounting policies and areas of accounting judgment;
- review and recommendations to the Board for the adoption of the Group's half-year and annual financial statements.

Senior representatives from Ernst & Young and Internal Audit attended every scheduled meeting of the Audit Committee throughout the period. A meeting of the Group's regional audit committee Chairmen was held in October 2007 at which key finance related issues from a regional and Group perspective were considered.

Access to the Committee

To draw appropriate matters to the attention of the Committee, the following individuals have direct access to the Committee: Group Chief Executive Officer; Group Chief Financial Officer; Deputy Group Chief Financial Officer; General Manager Group Finance; Group Chief Risk Officer; Group General Counsel; Chief Audit Officer and the external auditor. 'Direct access' means that the person has the right to approach the Committee without having to proceed via normal reporting line protocols.

Other employees of the Group may have access to the Audit Committee through the 'Whistleblower Protection Program'. *Refer to page 40 for further information on the 'Whistleblower Protection Program'.*

Confidential financial submissions

The Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters. It is a responsibility of the Audit Committee to ensure that employees can make confidential, anonymous submissions regarding such matters (*refer to the 'Whistleblower Protection Program' section on page 40 for further information).*

External auditor

The Audit Committee is responsible for the selection, evaluation, compensation and, where appropriate, replacement of the external auditor, subject to shareholder approval where required.

The Audit Committee ensures that the external lead audit partner and concurring review partner rotate off the Group's audit at least every five years and that they are not reassigned to the Group's audit for another five years.

The Audit Committee meets with the external auditor throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the scope, quality and independence of the audit.

The Audit Committee receives assurances from the external auditor that they meet all applicable independence requirements.

Internal audit

The Audit Committee is responsible for assessing whether the Internal Audit function is independent of management and is adequately staffed and funded. The Committee also assesses the performance of the Chief Audit Officer, Internal Audit and may recommend to the Board, the appointment and dismissal of this officer.

Audit Committee pre-approval policies and procedures

The Audit Committee is responsible for the oversight of the work of the external auditor. To assist it in discharging its oversight responsibility, the Audit Committee has adopted an External Auditor Independence Policy which requires, among other things, pre-approval of all audit and non-audit services to be provided by the external auditor. The External Auditor Independence Policy incorporates auditor independence requirements of applicable laws, rules and regulations and applies these throughout the Group.

In accordance with the External Auditor Independence Policy, the external auditor may only provide a service to the Group if:

- the external auditor is not prohibited from providing that service by applicable auditor independence laws, rules and regulations;
- in the opinion of the Audit Committee, the service does not otherwise impair the independence of the external auditor;
- in the opinion of the Audit Committee, there is a compelling reason for the external auditor to provide the service; and
- the service is specifically pre-approved by the Audit Committee or delegate.

In accordance with the External Auditor Independence Policy, the Group will not employ a current or former partner or professional employee of the external auditor when prohibited by applicable independence laws, rules or regulations.

The Audit Committee may set an annual fee limit for each type of audit or non-audit service to be provided by the external auditor. Unless the Audit Committee approves otherwise, the fees paid or due and payable to the external auditor for the provision of audit related and non-audit services in any financial year must not exceed the fees paid or due and payable to the external auditor for audit services in that year.

The Audit Committee may delegate to one or more of its membership or to management as it sees fit, the authority to pre-approve audit and related audit services to be provided by the external auditor. The decision of any delegate to specifically pre-approve any audit or audit related service is presented to the Audit Committee at its next scheduled meeting. The Audit Committee has delegated the authority to pre-approve audit and non-audit services to the Audit Committee Chairman and certain members of management where the services meet specific requirements and fee limits as approved by the Audit Committee. Other non-audit services are required to be approved by the Audit Committee Chairman.

Details of the services provided by Ernst & Young to the Group and the fees paid or due and payable for those services are set out in the report of the directors and note 49 in the financial report.

Remuneration Committee

Membership

The Remuneration Committee's members are:

Mr Peter Duncan (Chairman);
Mr Daniel Gilbert; and
Ms Jillian Segal.

During the year, Mr Geoffrey Tomlinson and Mr Daniel Gilbert exchanged their positions on the Remuneration and Audit Committees respectively, effective January 1, 2007.

Responsibilities and Remuneration Committee charter

The Remuneration Committee's role, responsibilities, composition and membership requirements are documented in a Remuneration Committee charter approved by the Board, which is available on the Group's website. The responsibilities of the Remuneration Committee are to:

- oversee the Group's general remuneration strategy;
- monitor, review and make recommendations to the Board concerning:

  - remuneration policy and Total Reward for the Group Chief Executive Officer and for senior executives who report directly to him;
  - remuneration arrangements for non-executive Board directors (as listed on page 28);
  - arrangements for recruiting, retaining and terminating senior executives;
  - key appointments and proposals for the executive succession planning process;
- support the Board with monitoring the Group's culture, and the process for managing behaviours against quality gates and standards.

The remuneration policy for senior executives is set out in the remuneration report.

Activities during the year

Key activities undertaken by the Remuneration Committee during the year include:
- reviewing and recommending to the Board the remuneration package for the Group Chief Executive Officer and other senior executives;
- reviewing and recommending to the Board the incentives payable to senior executives based on performance criteria structured to increase shareholder value;
- reviewing employee equity plans and allocations;
- reviewing remuneration of non-executive directors of subsidiary companies;
- reviewing and monitoring the Group's people and culture dashboard at regular intervals; and
- monitoring the Group's efforts to improve diversity in the workforce.

Nomination Committee

Membership

The Nomination Committee's members are:

Mr Michael Chaney (Chairman);
Mrs Patricia Cross;
Mr Peter Duncan;
Mr Daniel Gilbert;
Mr Kerry McDonald;
Mr Paul Rizzo;
Ms Jillian Segal;
Mr John Thorn;
Mr Geoffrey Tomlinson; and
Sir Malcolm Williamson.

All members of the Nomination Committee are independent directors.

Responsibilities and Nomination Committee charter

The Nomination Committee's role, responsibilities, composition and membership requirements are documented in a Nomination Committee charter, approved by the Board, which is available on the Group's website.

The Nomination Committee is responsible for review and oversight of:
- Board performance and the methodology for Board performance reviews;
- Board and Committee membership and composition; and
- succession planning for the Board and senior management.

Activities during the year

Key activities undertaken by the Nomination Committee during the year include:
- review of the methodology for the annual Board performance review;
- assessment of the appropriate size and composition of the Board;
- succession planning for non-executive directors; and
- review of Committee membership.

Controlled entities

The activities of every company in the Group are overseen by its own board of directors. Mr Geoffrey Tomlinson is the Chairman of National Wealth Management Holdings Limited, and certain wealth management controlled entities. Sir Malcolm Williamson is the Chairman of National Australia Group Europe Limited and Clydesdale Bank PLC. Mr Kerry McDonald is Chairman of Bank of New Zealand. The Board's confidence in the activities of a controlled entity board is based on having a high quality controlled entity board committed to the Group's objectives.

There is a standing invitation to all of the Company's directors to attend any board meeting of a controlled entity through consultation with the Chairman. Such visits are undertaken to develop a broader understanding of the Group's total operations.

Communicating with shareholders

Strategy

The Group aims to be open and transparent with all stakeholders, including the owners of the business – the shareholders. Information is communicated to shareholders regularly through a range of forums and publications and online. These include:
- the Company's annual general meeting;
- notices and explanatory memoranda of annual general meetings;
- the annual financial report (for those shareholders who have requested a copy) which is located on the Group's website;
- the annual shareholder review;
- disclosures to the stock exchanges on which the Company's securities are listed and to ASIC;
- letters from the Chairman to specifically inform shareholders of key matters of interest; and
- the Group's website where there is a Shareholder Centre and News Centre which provides access to Company announcements, media releases, previous years' financial results and investor presentations.

In response to the feedback received from shareholders in surveys and focus groups, the Company has sought to further improve the style and content of its shareholder communications. The Company has produced a shorter, simpler shareholder communication featuring the highlights of the financial year and a summary of business performance.

Meetings

The notice of annual general meeting details the business to be considered by shareholders and details about each candidate standing for election or re-election as a director of the Company. For those shareholders who are unable to attend the meeting, the Company provides a webcast. The Company's external auditor attends the meeting to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Continuous disclosure

The Company's policy is that shareholders are informed of all major developments that impact the Group. There is a detailed disclosure policy in place, which is intended to maintain the market integrity and market efficiency of the Company's securities. The policy may be found on the Group's website.

The Company has established written guidelines and procedures to supplement the disclosure policy which are designed to manage the Company's compliance with the continuous disclosure obligations to the various stock exchanges on which the Company's securities are listed (including the ASX) and to attribute accountability at a senior executive level for that compliance.

ASX CGC Principles

Throughout 2007, the Company complied with the Recommendations contained in the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations.

Further, the Company has, where possible, made an early transition to the revised ASX CGC Principles published in August 2007. The governance practices of the Company largely comply with the revised ASX CGC Principles. However, the Company has not during the reporting period disclosed a summary of its formal communications policy as required under Recommendation 6.1 of the revised ASX CGC Principles. During the reporting period the Company publicly disclosed its strategy for communicating with shareholders as required under the existing ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations. The Company intends to include a summary of its formal policy for communicating with shareholders on its website for the 2008 reporting period.

In accordance with Recommendation 7.2 of the revised ASX CGC Principles, the Board has received a report from management on the effectiveness of the Company's management of its material business risks.

Further, the Board received the relevant declarations required under section 295A of the *Corporations Act* 2001 (Cth) and the relevant assurances required under Recommendation 7.3 of the revised ASX CGC Principles.

A checklist summarising the Group's compliance with the revised ASX CGC Principles is available on the Group's website.

Promote ethical and responsible decision-making

The Board has developed with management a set of Corporate Principles, as the basis for the Group's core beliefs and values. The five principles are:

- we will be open and honest;
- we take ownership and hold ourselves accountable (for all of our actions);
- we expect teamwork and collaboration across our organisation for the benefit of all stakeholders;
- we treat everyone with fairness and respect; and
- we value speed, simplicity and efficient execution of our promises.

The Group's reward strategy and performance management process are aligned to the Group's Principles.

The Company has a Code of Conduct which requires the observance of strict ethical guidelines. The Code of Conduct applies to all employees of the Group, as well as to directors, and temporary workers. In addition, the Board charter also governs the conduct of the Board and each director.

The Code of Conduct covers:

- personal conduct;
- honesty;
- relations with customers;
- prevention of fraud;
- financial advice to customers;
- conflict of interest; and
- disclosure.

The Corporate Principles together with the Company's Code of Conduct, emphasise the practices necessary to maintain confidence in the Company's integrity and those practices necessary to take into account the Company's legal obligations and the reasonable expectations of the Company's stakeholders.

All Australian employees must complete mandatory compliance training in a range of topics, including the Code of Conduct, the Code of Banking Practice, privacy and trade practices.

The Group regularly reviews its relationships with the external suppliers of goods and services. The due diligence process for potential major suppliers must taken into account consideration of factors such as ethical, environmental, human rights, and work place relations.

The Board supports the code of conduct issued by the Australian Institute of Company Directors.

The Group has also adopted a code of conduct for financial professionals which applies to the Group Chief Executive Officer, Group Chief Financial Officer and all employees serving in finance, accounting, tax or investor relations roles. This code of conduct is available on the Group's website.

The Company supports the Code of Banking Practice 2004 of the Australian Bankers' Association, which includes:

- major commitments and obligations to customers;
- principles of conduct; and
- the roles and responsibilities of an independent external body, the Code Compliance Monitoring Committee, which investigates complaints about non-compliance with this Code.

The Corporate Principles and Code of Conduct are available on the Group's website.

Corporate governance

Whistleblower Protection Program

The Group has a Whistleblower Protection Program for confidential reporting of unacceptable or undesirable conduct. The system enables disclosures to be made to a protected disclosure officer by the Group's employees, or, where applicable, if the matter is highly sensitive and the employee believes it more appropriate, direct to the Audit Committee.

The Group does not tolerate incidents of fraud, corrupt conduct, adverse behaviour, legal or regulatory non-compliance, or questionable accounting and auditing matters by its employees.

The Group will take all reasonable steps to protect a person who comes forward to disclose unacceptable or undesirable conduct, including disciplinary action, or potentially resulting in dismissal, of any person taking reprisals against them.

Staff are also urged to escalate any issues they believe could have a material impact on the Group's profitability, reputation, governance or compliance.

Financial report

Income statement

For the year ended September 30	Note	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Interest income	3	**30,958**	25,553	**23,357**	19,462
Interest expense	3	**(21,212)**	(16,867)	**(17,235)**	(13,786)
Net interest income		**9,746**	8,686	**6,122**	5,676
Premium and related revenue		**788**	887	**-**	-
Investment revenue		**8,177**	6,375	**-**	-
Claims expense		**(515)**	(565)	**-**	-
Change in policy liabilities		**(5,844)**	(4,456)	**-**	-
Policy acquisition and maintenance expense		**(828)**	(791)	**-**	-
Investment management expense		**(20)**	(33)	**-**	-
Net life insurance income		**1,758**	1,417	**-**	-
Gains less losses on instruments at fair value	4	**600**	471	**270**	342
Other operating income	4	**3,925**	4,419	**3,158**	2,646
Net profit from the sale of controlled entities	4	**-**	196	**-**	-
Significant revenue					
Pensions revenue	4	**-**	319	**-**	43
Net profit from the sale of National Europe Holdings (Ireland) Limited	4	**-**	15	**-**	-
Total other income		**4,525**	5,420	**3,428**	3,031
Personnel expenses	5	**(4,229)**	(3,869)	**(2,757)**	(2,507)
Occupancy-related expenses	5	**(519)**	(523)	**(286)**	(302)
General expenses	5	**(2,664)**	(3,187)	**(1,402)**	(1,546)
Charge to provide for doubtful debts	5	**(790)**	(606)	**(457)**	(262)
Net loss from the sale of controlled entities	5	**-**	(63)	**-**	-
Total operating expenses		**(8,202)**	(8,248)	**(4,902)**	(4,617)
Profit before income tax expense		**7,827**	7,275	**4,648**	4,090
Income tax expense	6	**(2,255)**	(2,134)	**(1,043)**	(1,003)
Net profit		**5,572**	5,141	**3,605**	3,087
Net profit attributable to minority interest		**(994)**	(749)	**-**	-
Net profit attributable to members of the Company		**4,578**	4,392	**3,605**	3,087
Basic earnings per share (cents)	8	**269.0**	262.6		
Diluted earnings per share (cents)	8	**268.4**	261.8		
Dividends per ordinary share (cents)					
Interim	7	**87**	83		
Final	7	**95**	84		

Balance sheet

As at September 30	Note	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Assets					
Cash and liquid assets	9	**12,796**	12,768	**6,190**	5,913
Due from other banks	10	**25,144**	24,372	**21,570**	19,565
Trading derivatives	11	**23,019**	13,384	**20,701**	12,311
Trading securities	12	**21,272**	13,740	**19,683**	12,873
Investments - available for sale	13	**1,345**	1,493	**259**	965
Investments - held to maturity	14	**5,016**	1,388	**950**	883
Investments relating to life insurance business	15	**62,630**	54,784	**-**	-
Other financial assets at fair value	16	**25,189**	22,123	**914**	780
Hedging derivatives	11	**1,203**	480	**687**	383
Loans and advances	17	**320,870**	283,777	**234,165**	199,515
Due from customers on acceptances		**49,322**	41,726	**49,316**	41,714
Property, plant and equipment	20	**1,958**	1,877	**1,041**	834
Due from controlled entities		**-**	-	**22,127**	28,067
Investments in controlled entities	21	**-**	-	**15,253**	15,300
Goodwill and other intangible assets	22	**5,368**	5,203	**443**	336
Deferred tax assets	23	**1,266**	1,631	**925**	1,055
Other assets	24	**8,236**	6,039	**4,108**	3,262
Total assets		**564,634**	484,785	**398,332**	343,756
Liabilities					
Due to other banks		**42,566**	37,489	**36,923**	33,015
Trading derivatives	11	**23,248**	12,008	**20,925**	11,002
Other financial liabilities at fair value	25	**21,850**	17,680	**3,748**	3,509
Hedging derivatives	11	**536**	333	**401**	179
Deposits and other borrowings	26	**254,225**	222,277	**185,909**	157,664
Liability on acceptances		**30,443**	32,114	**30,438**	32,102
Life policy liabilities	27	**53,097**	46,475	**-**	-
Current tax liabilities	28	**254**	532	**215**	526
Provisions	29	**1,359**	1,618	**961**	1,045
Due to controlled entities		**-**	-	**20,617**	17,913
Bonds, notes and subordinated debt	30	**80,983**	65,006	**61,313**	55,513
Other debt issues	31	**926**	2,274	**284**	334
Defined benefit pension scheme liabilities	32	**-**	313	**-**	32
Managed fund units on issue		**8,116**	7,249	**-**	-
Deferred tax liabilities	28	**1,404**	1,490	**277**	342
Other liabilities	33	**15,742**	9,955	**10,008**	4,712
Total liabilities		**534,749**	456,813	**372,019**	317,888
Net assets		**29,885**	27,972	**26,313**	25,868
Equity					
Contributed equity	34	**12,441**	12,279	**11,254**	11,796
Reserves	35	**1,071**	1,064	**1,083**	653
Retained profits	36	**16,059**	14,461	**13,976**	13,419
Total equity (parent entity interest)		**29,571**	27,804	**26,313**	25,868
Minority interest in controlled entities		**314**	168	**-**	-
Total equity		**29,885**	27,972	**26,313**	25,868

Recognised income and expense statement

		Group		Company	
For the year ended September 30		**2007**	2006	**2007**	2006
	Note	**$m**	$m	**$m**	$m
Actuarial gains/(losses) from defined benefit pension plans	36	**444**	207	**(60)**	151
Cash flow hedges					
Gains taken to equity	35	**202**	77	**184**	119
Gains transferred to income statement	35	**7**	2	**-**	-
Exchange differences on translation of foreign operations	35	**(725)**	357	**(94)**	(24)
Income tax on items taken directly to equity		**(213)**	(72)	**(39)**	(75)
Other		**10**	11	**4**	-
Net income recognised directly in equity		**(275)**	582	**(5)**	171
Net profit		**5,572**	5,141	**3,605**	3,087
Total net income recognised		**5,297**	5,723	**3,600**	3,258
Attributable to					
Members of the parent		**4,303**	4,974	**3,600**	3,258
Minority interest		**994**	749	**-**	-
Total net income recognised		**5,297**	5,723	**3,600**	3,258

Cash flow statement

For the year ended September 30	Note	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Cash flows from operating activities					
Interest received		**30,653**	24,501	**23,486**	18,894
Interest paid		**(20,289)**	(15,232)	**(16,892)**	(12,531)
Dividends received		**11**	16	**981**	859
Life insurance					
Premiums received		**10,811**	7,869	**-**	-
Investment and other revenue received		**2,497**	1,848	**-**	-
Policy payments		**(9,674)**	(7,308)	**-**	-
Fees and commissions paid		**(472)**	(396)	**-**	-
Net trading revenue received		**1,159**	1,745	**791**	1,501
Other operating income received		**4,284**	5,540	**2,168**	2,204
Cash payments to employees and suppliers					
Personnel expenses paid		**(4,034)**	(3,816)	**(2,525)**	(2,365)
Other operating expenses paid		**(3,610)**	(4,135)	**(1,800)**	(1,873)
Goods and services tax (paid)/received		**(43)**	(101)	**16**	12
Cash payments for income taxes		**(2,403)**	(1,940)	**(1,310)**	(882)
Cash flows from operating activities before changes in operating assets and liabilities		**8,890**	8,591	**4,915**	5,819
Changes in operating assets and liabilities arising from cash flow movements					
Net placement of deposits with and withdrawal of deposits from supervisory central banks that are not part of cash equivalents		**(17)**	(1)	**(3)**	13
Net payments for and receipts from transactions in acceptances		**(9,278)**	(3,271)	**(9,278)**	(3,271)
Net funds advanced to and receipts from customers for loans and advances		**(44,228)**	(30,137)	**(36,146)**	(21,449)
Net acceptance from and repayment of deposits and other borrowings		**39,373**	14,629	**31,277**	12,174
Net movement in life insurance business investments		**(2,168)**	(1,491)	**-**	-
Net movement in other life insurance assets and liabilities		**(690)**	(406)	**-**	-
Net receipts from and payments for transactions in treasury bills and other eligible bills held for trading and not part of cash equivalents		**117**	(223)	**26**	(129)
Net payments for and receipts from transactions in trading securities		**(7,709)**	(3,803)	**(6,771)**	(5,000)
Net receipts from and payments for trading derivatives		**1,155**	(1,507)	**1,048**	(909)
Net funds advanced to and receipts from other financial assets at fair value		**(4,536)**	(2,638)	**(444)**	(486)
Net receipts from other financial liabilities at fair value		**4,915**	6,929	**624**	2,174
Net (increase)/decrease in other assets		**(5,581)**	447	**(4,925)**	666
Net increase in other liabilities		**5,577**	2,640	**5,386**	898
Net cash used in operating activities	40(a)	**(14,180)**	(10,241)	**(14,291)**	(9,500)

Cash flow statement (continued)

For the year ended September 30	Note	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Movement in investments - available for sale					
Purchases		**(15,779)**	(18,704)	**(15,174)**	(18,199)
Proceeds from disposal		**22**	1,354	**-**	1,306
Proceeds on maturity		**17,139**	19,877	**17,097**	19,264
Movement in investments - held to maturity					
Purchases		**(17,943)**	(16,856)	**(13,787)**	(16,426)
Proceeds from disposal and on maturity		**15,112**	17,718	**14,514**	17,497
Net movement in amounts due from controlled entities		**-**	-	**8,332**	5,423
Net movement in shares in controlled entities		**-**	-	**(216)**	(4,703)
Proceeds from sale of controlled entities, net of cash disposed and costs to sell	40(d)	**-**	1,020	**-**	-
Purchase of property, plant, equipment and software		**(789)**	(1,300)	**(593)**	(331)
Proceeds from sale of property, plant, equipment and software, net of costs		**194**	755	**69**	71
Net cash (used in)/provided by investing activities		**(2,044)**	3,864	**10,242**	3,902
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(16,982)**	(8,337)	**(13,113)**	(7,921)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**32,956**	28,528	**18,891**	21,239
Proceeds from issue of ordinary shares, net of costs		**60**	42	**60**	42
Proceeds from issue of National Capital Instruments, net of costs		**-**	1,076	**-**	397
Payments for buy back of ordinary shares, net of costs		**(1,200)**	-	**(1,200)**	-
Dividends and distributions paid		**(2,922)**	(2,555)	**(2,837)**	(2,495)
Net cash provided by financing activities		**11,912**	18,754	**1,801**	11,262
Net (decrease)/increase in cash and cash equivalents		**(4,312)**	12,377	**(2,248)**	5,664
Cash and cash equivalents at beginning of year		**(306)**	(12,459)	**(7,593)**	(13,113)
Effects of exchange rate changes on balance of cash held in foreign currencies		**288**	(224)	**628**	(144)
Cash and cash equivalents at end of year	40(b)	**(4,330)**	(306)	**(9,213)**	(7,593)

Notes to the financial statements

1 Principal accounting policies

The financial report of the National Australia Bank Limited (the Company) and its controlled entities during the year (the Group) for the year ended September 30, 2007 was authorised for issue in accordance with a resolution of the directors on December 6, 2007.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with the requirements of the *Corporations Act* 2001 (Cth), Australian Accounting Standards and Australian Accounting Interpretations of the Australian Accounting Standards Board (AASB). The financial statements have been prepared under the historical cost convention, as modified by the application of fair value measurements required by the relevant accounting standards. These accounting policies have been consistently applied throughout the Group.

The preparation of financial statements in conformity with Australian equivalents to International Financial Reporting Standards (AIFRS) requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosed amount of contingent liabilities. Assumptions made at each balance sheet date, (e.g. the calculation of provisions for doubtful debts, defined benefit pensions and fair value adjustments), are based on best estimates at that date. Although the Group has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material.

In the prior year, this financial report included disclosures required by the United States Securities Exchange Commission (SEC) in respect of foreign registrants. The Group de-registered from the SEC effective September 20, 2007. Accordingly, the NAB is not required to include SEC-related disclosures in this financial report for either the current or comparative financial years. This has resulted in certain changes in presentation within specific disclosures to reflect solely the requirements of AIFRS.

Comparative amounts have been reclassified to accord with changes in presentations made in 2007, except where otherwise stated.

Certain key terms used in this financial report are defined in the glossary.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include AIFRS. The financial report of the Group also complies with International Financial Reporting Standards. The financial statements of the Company are considered separate financial statements.

(c) Early adoptions

The Group has elected to early adopt the following accounting standards and amendments:

- AASB 8 “Operating Segments”;
- AASB 2007-3 “Amendments to Australian Accounting Standards arising from AASB 8”;
- AASB 2007-4 “Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments”; and
- AASB 2007-7 “Amendments to Australian Accounting Standards”.

(d) Recently issued accounting standards to be applied in future reporting periods

The AASB has issued new standards and amendments that were available for adoption, but not mandatory, for the September 30, 2007 reporting period. In some cases, these amendments relate to items which are not applicable to the Group. Those amendments which are applicable and which are likely to have an impact on the Group's disclosures but have not yet been applied by the Group in preparing this financial report are:

- AASB 7 “Financial Instruments: Disclosures” (August 2005) (AASB 7) withdraws AASB 130 “Disclosures in the Financial Statements of Banks and Similar Financial Institutions” and supersedes paragraphs 51-95 of AASB 132 “Financial Instruments: Presentation” (AASB 132). AASB 7 is applicable for annual reporting periods beginning on or after January 1, 2007;
- AASB 2005-10 “Amendments to Australian Accounting Standards” (September 2005) (AASB 2005-10): following the issue of AASB 7, the following AASB standards have been amended: AASB 132; AASB 101 “Presentation of Financial Statements” (AASB 101); AASB 114 “Segment Reporting”; AASB 117 “Leases”; AASB 133 “Earnings per Share”; AASB 139 “Financial Instruments: Recognition and Measurment”; AASB 4 “Insurance Contracts”; AASB 1023 “General Insurance Contracts”;and AASB 1038 “Life Insurance Contracts”;
- AASB 101 “Presentation of Financial Statements” (September 2007) (AASB 101) supersedes the previous version of AASB 101 and makes changes to nomenclature and content of the financial statements, including the presentation of a statement of comprehensive income;
- AASB 2007-8 “Amendments to Australian Accounting Standards arising from AASB 101” (September 2007) (AASB 2007-8) amends numerous standards arising from the application of AASB 101;
- AASB Interpretation 11 “AASB 2 – Group and Treasury Share Transactions” (February 2007) (Interpretation 11) clarifies the accounting treatment of certain types of share-based payment transactions with employees; and
- AASB Interpretation 13 “Customer Loyalty Programmes” (August 2007) (Interpretation 13) clarifies the accounting for certain types of customer loyalty programmes.

The Group will adopt AASB 7, AASB 2005-10 and Interpretation 11 from October 1, 2007. The Group has not yet determined the reporting periods for which AASB 101, and AASB 2007-8 and Interpretation 13 will be applied. The Group is currently evaluating the likely impact of Interpretation 13. The initial application of the other recently issued standards listed is not expected to have a material impact on the financial results of the Company or the Group as the standards are concerned only with disclosures.

(e) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

1 Principal accounting policies (continued)

(f) Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/100 dated July 10, 1998, all amounts have been rounded to the nearest million dollars, except where indicated.

(g) Principles of consolidation

Controlled entities

The consolidated financial report comprises the financial report of the Company and its controlled entities. Controlled entities are all those entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. Special purpose entities require consolidation in circumstances such as those where the Group has access to the majority of the residual income or is exposed to the majority of the residual risk associated with the special purpose entity.

Entities are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. The effects of transactions between entities within the economic entity are eliminated in full upon consolidation.

External interest in the equity and results of the entities that are controlled by the Company are shown as a separate item, minority interest, in the consolidated financial report.

Statutory funds of the Group's life insurance business have been consolidated into the financial report. The financial report consolidates all of the assets, liabilities, revenues and expenses of the statutory funds and non-statutory fund life insurance business irrespective of whether they are designated as relating to policyholders or shareholders. In addition, where the Group's life insurance statutory funds have the capacity to control managed investment schemes, the Group has consolidated all of the assets, liabilities, revenues and expenses of these managed investment schemes.

(h) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial report is presented in Australian dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are normally recognised in the income statement. Such gains and losses will be deferred in equity as qualifying cash flow hedges and qualifying net investment hedges where applicable. Non-monetary items are translated using the exchange rate at the date of the initial recognition of the asset or liability.

(iii) Controlled entities

The results and financial position of all Group entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the balance sheet;
- income and expenses are normally translated at average exchange rates for the period; and
- all resulting exchange differences are recognised as a separate component of equity in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other foreign currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(i) Fair value measurement

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, between willing parties in an arm's length transaction.

Where the classification of a financial asset or liability requires it to be stated at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Group has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no such active market exists for the particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques based on market conditions and risks existing at balance date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises the profit on initial recognition (i.e. on day one).

Assets

(j) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant

1 Principal accounting policies (continued)

risk of changes in value. They are held for the purposes of meeting short-term cash commitments (rather than for investment or other purposes) and include cash and liquid assets, amounts due from other banks including securities held under reverse repurchase agreements, and short-term government securities.

(k) Repurchase and reverse repurchase agreements

Securities sold subject to repurchase agreements are retained in their respective balance sheet categories. The counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate based upon the counterparty to the transaction.

Securities purchased under agreements to resell are accounted for as collateralised loans. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Such amounts are normally classified as deposits with other banks or cash and cash equivalents. Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements unless they are sold to third parties in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return securities borrowed is recorded at fair value as a trading liability.

(l) Derivative financial instruments and hedge accounting

All derivatives are recognised in the balance sheet at fair value on trade date. All derivatives are classified as trading except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. The fair value of derivatives is determined by calculating the expected cash flows under the terms of each specific contract, discounted back to present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial markets pricing models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as:

- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (cash flow hedges); or
- hedges of net investments in foreign operations.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, the risk being hedged and the Group's risk management objective and strategy for undertaking these hedge transactions. The Group also documents how effectiveness will be measured throughout the life of the hedge relationship. In addition, the Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedges

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement on an effective yield basis. Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement.

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period(s) in which the hedged item will affect profit or loss (e.g. when the forecast hedged variable cash flows are recognised within the income statement).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

(iii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. This could occur for two reasons:

- the derivative is held for the purpose of short-term profit taking; or
- the derivative is held to economically hedge an exposure but does not meet the accounting criteria for hedge accounting.

1 Principal accounting policies (continued)

In both of these cases, the derivative is classified as a trading derivative.

Certain derivatives embedded in financial instruments are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract and the host contract is not carried at fair value through profit and loss. These embedded derivatives are separately measured at fair value with changes in fair value recognised in the income statement.

(m) Items classified as fair value through profit and loss

Purchases and sales of financial assets classified within fair value through profit and loss are recognised on trade date, being the date that the Group is committed to purchase or sell a financial asset.

(i) Financial assets held for trading

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Assets held for trading purposes are classified as trading derivatives or trading securities within the balance sheet.

(ii) Financial instruments designated at fair value through profit and loss

Upon initial recognition, financial assets may be designated as held at fair value through profit and loss. Financial assets classified as fair value through profit and loss are initially recognised at fair value, with transaction costs being recognised in the income statement immediately. Subsequently, they are measured at fair value with gains and losses recognised in the income statement as they arise.

Restrictions are placed on the use of the designated fair value option and the classification can only be used in the following circumstances:

- if a host contract contains one or more embedded derivatives, the Group may designate the entire contract as being held at fair value;
- designating the instruments will eliminate or significantly reduce measurement or recognition inconsistencies (i.e. eliminate an accounting mismatch) that would otherwise arise from measuring assets or liabilities on a different basis; or
- assets and liabilities are both managed and their performance is evaluated on a fair value basis in accordance with documented risk management and investment strategies.

(iii) Assets relating to life insurance businesses

Refer to note 1(p) Assets relating to life insurance businesses for further details.

(n) Investments – available for sale

Available for sale investments are non-derivative financial assets that are designated as available for sale or are not categorised into any of the categories of:

- fair value through profit and loss;
- loans and receivables; or
- held to maturity.

Available for sale investments primarily comprise debt securities.

Available for sale investments are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in the available for sale investments reserve within equity until sale when the cumulative gain or loss is transferred to the income statement. Upon disposal or impairment, the accumulated change in fair value within the available for sale investments reserve is recognised in the income statement.

(o) Investments – held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Group has the intention and ability to hold to maturity. Held to maturity assets are initially recognised at fair value and subsequently recorded at amortised cost using the effective interest method.

(p) Assets relating to life insurance businesses

Assets held by the Group's life insurance businesses are recorded as follows:

(i) Assets backing policy liabilities

All assets held in statutory funds are considered to back policy liabilities and are therefore classified as fair value through profit and loss.

(ii) Assets not backing life insurance liabilities

Financial assets not specifically backing insurance liabilities are classified as fair value through profit and loss, with the exception of investments in controlled entities that are treated under normal entity consolidation accounting rules.

Investments in controlled entities are stated at original cost less provision for diminution in value, if any.

(iii) Restrictions on assets

The assets and liabilities held in the statutory funds of the Australian life insurance business are subject to the restrictions of the *Life Insurance Act* 1995 (Cth) and the constitutions of the life insurance entities. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act* 1995 (Cth) are met. Therefore, assets held in statutory funds are not available for use by other parts of the Group's business other than any profits generated in the statutory funds.

(q) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

1 Principal accounting policies (continued)

Loans and advances are initially recognised at fair value including direct and incremental transaction costs. They are subsequently recorded at amortised cost, using the effective interest method, net of any provision for doubtful debts. They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

As noted above, in certain limited circumstances the Group applies the fair value measurement option to financial assets. This option is applied to loans and advances where there is an embedded derivative within the loan contract and the Group has entered into a derivative to offset the risk introduced by the embedded derivative. The loan is designated as being carried at fair value through profit and loss to offset the movements in the fair value of the derivative within the income statement. When this option is applied, the asset is included within other financial assets at fair value and not loans and advances.

Where a loan is held at fair value, a statistical-based calculation is used to estimate expected losses attributable to adverse movements in credit on the assets held. This adjustment to the credit quality of the asset is then applied to the carrying value of the loan held at fair value.

(r) Impairment

(i) Financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date (a loss event) and it is considered that the loss event has had an impact on the estimated future cash flows of the financial asset (or the portfolio) that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and advances and held to maturity investments, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using a provision account.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data.

In addition, the Group uses its experienced judgement to estimate the amount of an impairment loss. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised on the unwinding of the discount from the initial recognition of impairment.

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

In the case of equity instruments classified as available for sale, the Group seeks evidence of a significant or prolonged decline in the fair value of the security below its cost to determine whether impairment exists. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as other financial assets. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is recognised in the income statement. Reversals of impairment of debt securities classified as available for sale are recognised in the income statement. Reversals of impairment of equity instruments classified as available for sale are not recognised in the income statement, but rather directly in equity.

(ii) Non-financial assets

Assets with an indefinite useful life, including goodwill, are not subject to amortisation and are tested on an annual basis for impairment, and additionally whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which that asset belongs. Management judgement is applied to identify cash generating units (which are determined according to the lowest level of aggregation for which an active market exists, as this evidences the assets involved create largely independent cash inflows). Each of these cash generating units is represented by an operating segment or a subdivision of an operating segment.

1 Principal accounting policies (continued)

(s) Acceptances

The Group's liability arising from the acceptance of bills of exchange and the asset under acceptance representing the claims against its customer are measured initially at fair value and subsequently at amortised cost. When the Group discounts its own acceptance, the acceptance liability is derecognised. When the Group rediscounts its own acceptance, an acceptance liability is re-recognised and the asset remains recognised as an acceptance. The difference between the purchase and sale of the Group's own acceptance gives rise to realised profits and losses that are recognised in the income statement. Bill acceptance fees are deferred and amortised on an effective yield basis over the life of the instrument.

(t) Property, plant and equipment

Land and buildings are measured at fair value and are revalued annually, effective July 31, by directors to reflect fair values. Directors' valuations are based on advice received from independent valuers. Such valuations are performed on an open market basis, being the amounts for which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the valuation date. Newly acquired property assets are held at cost (i.e. equivalent to fair value due to their recent acquisition) until the time of the next annual review, a period not exceeding 12 months.

Revaluation increments are credited directly to the asset revaluation reserve. However, the increment will be recognised in the income statement to the extent it reverses a revaluation decrement previously recognised as an expense for a specific asset. Revaluation decrements are charged against the asset revaluation reserve to the extent that they reverse previous revaluation increments for a specific asset. Any excess is recognised as an expense in the income statement. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

Other items of plant and equipment are carried at cost, less accumulated depreciation and any impairment losses. The cost of plant and equipment includes an obligation for removal of the asset or restoration of the site where such an obligation exists and if that cost can be reliably estimated.

With the exception of freehold land, all items of property, plant and equipment are depreciated or amortised using the straight-line method at the rates appropriate to its estimated useful life to the Group. For major classes of property, plant and equipment, the annual rates of depreciation or amortisation are:

- buildings – 3.3%;
- leasehold improvements – up to 10%;
- furniture, fixtures and fittings and other equipment – from 10% to 20%;
- motor vehicles – 20%;
- personal computers – 33.3%; and
- other data processing equipment – from 20% to 33.3%.

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains or losses on the disposal of property, plant and equipment, which are determined as the difference between the net sale proceeds, if any, and the carrying amount at the time of sale are included in the income statement.

Any realised amounts in the asset revaluation reserve are transferred directly to retained profits.

(u) Leases

(i) As lessee

The leases entered into by the Group as lessee are primarily operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease.

When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the income statement in the period of termination.

(ii) As lessor

Leases entered into by the Group as lessor, where the Group transfers substantially all the risks and rewards of ownership to the lessee are classified as finance leases. The net investment in the lease, which is comprised of the present value of the lease payments including any guaranteed residual value and initial direct costs, is recognised within loans and advances. The difference between the gross receivable and the present value of the receivable is unearned income. Income is recognised over the term of the lease using the net investment method (before tax), reflecting a constant periodic rate of return.

Assets leased under operating leases are included within property, plant and equipment at cost and depreciated over the life of the lease after taking into account anticipated residual values. Operating lease rental income is recognised within other operating income in the income statement on a straight-line basis over the life of the lease. Depreciation is recognised within the income statement consistent with the nature of the asset.

(v) Goodwill and other intangible assets

(i) Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the fair value of the purchase consideration and direct costs of making the acquisition over the fair value of the Group's share of the net assets at the date of the acquisition. For the purposes of impairment testing, goodwill has been allocated to cash generating units that benefit from the synergies of the acquisition.

(ii) Software costs

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised and recognised as an intangible asset where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred.

1 Principal accounting policies (continued)

Capitalised software costs and other intangible assets are amortised on a straight-line basis over their expected useful lives: usually, this is between three and five years.

Computer software and other intangible assets are stated at cost less amortisation and impairment losses, if any.

Liabilities

(w) Due to other banks

Due to other banks includes deposits, vostro balances, repurchase agreements and settlement account balances due to other banks. These items are brought to account at the gross value of the outstanding balance.

(x) Financial liabilities

Financial liabilities comprise items such as due to other banks, due to customers, liabilities on acceptances, trading liabilities, and deposits and other borrowings. Financial liabilities may be held at fair value through profit and loss or at amortised cost.

A financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. A financial liability is derecognised from the balance sheet when the Group has discharged its obligation or the contract is cancelled or expires.

When a financial liability is recognised, initially it is measured at its fair value plus transaction costs, unless the financial instrument is designated as fair value through profit and loss.

Items held at fair value through profit and loss comprise both items held for trading and items specifically designated as fair value through profit and loss at initial recognition. Financial liabilities held at fair value through profit and loss are initially recognised at fair value, with transaction costs being recognised immediately in the income statement. Subsequently, they are measured at fair value and any gains and losses are recognised in the income statement as they arise.

Where a liability is held at fair value, the movement in fair value attributable to changes in the Group's own credit quality is calculated through reference to an observable market rate where available or the derivation of a credit adjustment based upon observable market inputs. This adjustment to the credit quality of the liability is then applied to the carrying value of the liability held at fair value.

Bonds, notes and subordinated debt are held at fair value where an accounting mismatch is significantly reduced or eliminated that would otherwise occur if the liability was measured on another basis.

Financial liabilities may be designated as fair value through profit and loss providing they meet the same criteria set down in note 1(m).
A financial liability is classified as held for trading if it is incurred principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship).

(y) Deposits and other borrowings

Deposits and other borrowings include non-interest-bearing deposits redeemable at call, on-demand and short-term deposits lodged for periods of less than 30 days, certificates of deposit, interest-bearing deposits, debentures and other funds raised publicly by borrowing corporations. These items are brought to account at the gross value of the outstanding balance.

(z) Life policy liabilities

Life policy liabilities in the Group's balance sheet and the change in policy liabilities disclosed as an expense have been calculated in accordance with guidance provided by the Life Insurance Actuarial Standard Board's Actuarial Standard AS 1.04 "Valuation of Policy Liabilities".

(i) Life insurance contracts

Policy liabilities from insurance contracts are measured predominantly using the projection method which is the net present value of estimated future policy cash flows. Future cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments (including bonuses). The accumulation method may be used only where the result would not be materially different to the projection method.

Unvested policyholder benefits represent amounts that have been allocated to certain non-investment-linked policyholders that have not yet vested with specific policyholders.

The measurement of policy liabilities is subject to actuarial assumptions. Assumptions made in the calculation of policy liabilities at each balance date are based on best estimates at that date. The assumptions include the benefits payable under the policies on death, disablement or surrender, future premiums, investment earnings and expenses. Best estimate means that assumptions are neither optimistic nor pessimistic but reflect the most likely outcome. The assumptions used in the calculation of the policy liabilities are reviewed at each balance sheet date. Deferred acquisition costs are presented as an offset in policy liabilities.

To the extent that the benefits under life insurance contracts are not contractually linked to the performance of the assets held, the life insurance liabilities are discounted for the time value of money using risk-free discount rates based on current observable, objective rates that relate to the nature, structure and term of the future obligations. Where the benefits under life insurance contracts are contractually linked to the performance of the assets held, the life insurance liabilities shall be discounted using discount rates based on the market returns on assets backing life insurance liabilities.

For reinsurance contracts, the Group retains the primary obligation of the underlying life insurance contract.

(ii) Life investment contracts

Policy liabilities for investment contracts are measured at fair value with this value determined as equal to or greater than the surrender value of the policy. The discount rate reflects the return on assets backing the liabilities.

1 Principal accounting policies (continued)

(aa) Provisions

Provisions are recognised when a legal or constructive obligation exists as a result of a past event, it is probable that an outflow of economic benefits will be necessary to settle the obligation and it can be reliably estimated. Provisions are not discounted to the present value of their expected net future cash flows except where the time value of money is considered material.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless they are remote.

(i) Operational risk events

Provisions for operational risk event losses are raised for losses incurred by the Group which do not relate directly to amounts of principal outstanding for loans and advances.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

(ii) Restructuring costs

Provisions for restructuring costs include provisions for expenses incurred but not yet paid and future expenses that will arise as a direct consequence of decisions already made. A provision for restructuring costs is only made where the Group has made a commitment and entered into an obligation such that it has no realistic alternative but to carry out the restructure and make future payments to settle the obligation. Provision for restructuring costs is only recognised when a detailed plan has been approved and the restructuring has either commenced or has been publicly announced. This includes the cost of staff termination benefits and surplus leased space. Costs related to ongoing activities are not provided for.

(bb) Financial guarantees

The Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the credit rating of the Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances.

The financial guarantee contract is initially recorded at fair value which is equal to the premium received, unless there is evidence to the contrary. Subsequently, the Group records and measures the financial guarantee contract at the higher of:

- the amount initially recognised less, when appropriate, amortisation of the fee which is recognised over the life of the guarantee; and
- where it is likely the Group will incur a loss as a result of issuing the contract, a liability is recognised for the estimated amount of the loss payable.

(cc) Employee benefits

Wages and salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of providing the service are measured at their nominal amounts using remuneration rates that the Group expects to pay when the liabilities are settled.

Employee entitlements to long service leave are accrued using an actuarial calculation, based on legal and contractual entitlements and assessments having regard to staff departures, leave utilisation and future salary increases.

All other employee entitlements that are not expected to be paid or settled within 12 months of the reporting date are measured at the present value of net future cash flows.

Employees of the Group are entitled to benefits on retirement, disability or death, from the Group's superannuation plans. The Group operates pension plans which have both defined benefit and defined contribution components.

The defined contribution plans receive fixed contributions from Group companies and the Group's obligation for contributions to these plans are recognised as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available.

The defined benefit plans provide defined lump sum benefits based on years of service and a salary component determined in accordance with the specific plan. An asset or liability in respect of defined benefit superannuation plans is recognised in the balance sheet and is measured as the present value of the defined benefit obligation less the fair value of the superannuation fund's assets at the reporting date.

The present value of the defined benefit obligations for each plan is discounted by either the government bond rate, or the average AAA credit rated bond rate for bonds that have maturity dates approximating to the terms of the Group's obligations. The present value of the defined benefit obligations is calculated every three years using the projected unit credit method and updated on an annual basis for material movements in the plan position.

The Group does not offset pension assets and liabilities arising from different defined benefit plans. Past service costs are recognised immediately in income. The Group's policy where actuarial gains and losses arise as a result of actual experience is to fully recognise such amounts directly in retained earnings.

Future taxes that are funded by the entity and are part of the provision of existing benefit obligations are taken into account in measuring the net liability or asset.

(dd) Trustee and funds management activities

The Group acts as trustee, custodian or manager of a number of funds and trusts, including superannuation and approved deposit funds, and wholesale and retail investment trusts. Where the Group does not have

1 Principal accounting policies (continued)

direct or indirect control of these funds and trusts as defined by AASB 127 "Consolidated and Separate Financial Statements", the assets and liabilities are not included in the consolidated financial statements of the Group. When controlled entities, as responsible entities or trustees, incur liabilities in respect of their activities, a right of indemnity exists against the assets of the applicable trusts and funds. Where these assets are determined to be sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the Group does not include the liabilities in the consolidated financial statements.

Commissions and fees earned in respect of the Group's trust and funds management activities are included in the income statement.

(ee) Securitisation

Through its loan securitisation program, the Group packages and sells loans (principally housing mortgage loans) as securities to investors through a series of securitisation vehicles. The Group is entitled to any residual income of the vehicles after all payments to investors and costs of the program have been met. Therefore, the Group is considered to hold the majority of the residual risks and benefits within the vehicles and all relevant financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction.

(ff) Income tax

Income tax expense (or revenue) is the tax payable (or receivable) on the current period's taxable income based on the applicable tax rate in each jurisdiction adjusted by changes in deferred tax assets and liabilities. Income tax expense is recognised in the income statement except to the extent that it related to items recognised directly in equity, in which case it is recognised in equity.

Current tax liability is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are only recognised for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable amounts will arise to utilise those temporary differences and losses.

The effects of income taxes arising from asset revaluation adjustments are recognised directly in the asset revaluation reserve where relevant. Deferred tax assets and liabilities related to fair value remeasurement of available for sale investments and cash flow hedges, which are charged or credited directly to equity, are also credited or charged directly to equity. The tax associated with these transactions will be recognised in the income statement at the same time as the underlying transaction.

For life insurance business, taxation is not based on the concept of profit. Special legislative provisions apply to tax policyholders and shareholders on different bases. According to the class of business to which their policies belong, policyholders have their investment earnings taxed at the following rates in Australia:

- superannuation policies – 15%;
- annuity policies – 0%; or
- non-superannuation investment policies – 30%.

The life insurance business shareholders' funds are taxed at the company rate of 30% on fee income and profit arising from insurance risk policies less deductible expenses.

Tax consolidation

The Group and its wholly owned Australian resident entities have formed a tax-consolidated group with effect from October 1, 2002 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is National Australia Bank Limited.

Current tax expense/income and deferred tax assets and liabilities arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'group allocation' approach.

Any current tax liabilities/assets and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable to/receivable from other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts. The inter-entity payable/receivable is at call. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The members of the tax-consolidated group have entered into a tax funding arrangement that sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. Contributions to fund the current tax liabilities are payable in accordance with the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

(gg) Bonds, notes and subordinated debt and other debt issues

Bonds, notes and subordinated debt and other debt issues are short and long-term debt issues of the Group including commercial paper, notes, term loans, medium-term notes, mortgage backed securities and other discrete debt issues. Debt issues are typically recorded at amortised cost using the effective interest method. Premiums, discounts and associated issue expenses are recognised using the effective interest method through the income statement from the date of issue to accrete the carrying value of securities to redemption values by maturity date. Interest is charged to the income statement using the effective interest method. Embedded derivatives within debt instruments must also be separately accounted for where not closely related to the terms of the host debt instrument. These embedded derivative instruments are recorded at fair value with gains and losses on the embedded derivative recorded in the income statement.

Where debt issues are classified as held at fair value through profit and loss, they are initially recognised at fair value, with transaction costs

1 Principal accounting policies (continued)

being recognised immediately in the income statement. Subsequently, they are measured at fair value and any gains and losses are recognised in the income statement as they arise.

Equity

(hh) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are directly included within equity. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held at shareholders' meetings. The Company's ordinary shares do not have a par value. In the event of a winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any residual proceeds of liquidation.

(ii) Reserves

(i) General reserve

The general reserve includes statutory funds' retained profits from the Group's life insurance business. Profits from the statutory funds are not immediately available for distribution. These profits will only be available after the respective life company's board has approved the transfer of surpluses from the statutory funds to the shareholders' fund.

(ii) Asset revaluation reserve

The asset revaluation reserve includes revaluation increments and decrements arising from the revaluation of properties.

(iii) Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations, the translation of transactions that hedge the Company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a foreign operation.

(iv) Cash flow hedge reserve

The cash flow hedge reserve records the fair value revaluation of derivatives designated as cash flow hedging instruments.

(v) Equity based payments reserve

The equity based payments reserve records the value of equity benefits provided to employees and directors as part of their remuneration.

(vi) General reserve for credit losses

In line with Australian Prudential Regulatory Authority (APRA) requirements, a general reserve for credit losses was established on July 1, 2006. This is an appropriation from retained earnings to non-distributable reserves and qualifies as Tier 2 capital. The reserve is calculated on a basis which aligns the group's coverage ratios with the APRA benchmark of 0.5% (post tax-effect) of total risk-weighted credit risk assets.

(jj) Treasury shares

If a controlled entity acquires shares in the Company (treasury shares), the cost of the acquired shares is recognised as a deduction from share capital. Dividends on treasury shares are not credited to income, but eliminated on consolidation. Gains and losses on sale of treasury shares are accounted for as adjustments to issued capital and not part of income.

Certain statutory funds of the Group's life insurance business hold investments in the Company. As these statutory funds are consolidated into the financial report, such investments held in the Company are accounted for as treasury shares. Additionally, shares purchased on-market to meet the requirements of employee incentive schemes, and held in trust by a controlled entity of the Company, are likewise accounted for as treasury shares.

Income and expense recognition

(kk) Interest income

Interest income is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

Loan origination fees are recognised as income over the life of the loan as an adjustment of yield. Commitment fees are deferred until the commitment is exercised and are recognised over the life of the loan as an adjustment of yield or, if unexercised, recognised as income upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised as income when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised as income over the commitment period. Loan-related administration and service fees are recognised as income over the period of service. Credit card fees are recognised as income over the card usage period. Syndication fees are recognised as income after certain retention, timing and yield criteria are satisfied.

Direct loan origination costs are netted against loan origination fees and the net amount recognised as income over the life of the loan as an adjustment of yield. All other loan-related costs are expensed as incurred.

(ll) Life insurance business

The Group conducts its life insurance business through a number of controlled entities including National Australia Financial Management Limited, MLC Lifetime Company Limited, MLC Limited and BNZ Life Insurance Limited.

1 Principal accounting policies (continued)

(i) Types of business

The Australian life insurance operations of the Group consist of investment-linked business and non-investment-linked business, which are conducted in separate statutory funds as required under the *Life Insurance Act* 1995 (Cth). The overseas life insurance operations of the Group consist primarily of non-investment-linked business.

Life investment contracts include investment-linked contracts where policyholders' investments are held within the statutory funds and policyholders' returns are directly linked to the investment performance of the assets in that fund. The policyholder bears all the risks and rewards of the investment performance. The policyholder has no direct access to the specific assets; however, the policy value is calculated by reference to the market value of the statutory fund's assets. Investment-linked business includes superannuation and allocated pension business. Fee income is derived from the administration of investment-linked policies and funds.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if an insured event could cause an insurer to pay significant additional benefits in any scenario that has commercial substance. Any products sold by a life insurer that do not meet the definition of a life insurance contract are classified as life investment contracts. Insurance contracts include those where an insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness or, in the case of an annuity, the continuance of the annuitant's life or the expiry of the annuity term. The benefit payable is not directly referable to the market value of the fund's assets.

Non-investment-linked business includes traditional whole of life and endowment policies (where the risks and rewards generally are shared between policyholders and shareholders) and risk policies such as death, disability and income insurance (where the shareholder bears all the financial risks).

(ii) Allocation of profit

Life insurance contracts

Profits are brought to account in the statutory funds on a Margin on Services basis (MoS). Under MoS, profit is recognised as fees are received and services are provided to policyholders over the life of the contract that reflects the pattern of risk accepted from the policyholder. When fees are received but the service has not been provided, the profit is not recorded at the point of sale. Losses are expensed when identified.

Consistent with the principle of deferring unearned profit is the requirement to defer expenditure associated with the deferred profit. MoS permits costs associated with the acquisition of life insurance policies to be charged to the income statement over the period that the policy will generate profits. However, costs may only be deferred to the extent that a policy is expected to be profitable.

Profits arising from policies comprising non-investment-linked business are based on actuarial assumptions, and calculated as the excess of premiums and investment earnings less claims, operating expenses and the amortisation of acquisition costs that will be incurred over the estimate life of the policies. The profit is systematically recognised over the estimated time period the policy will remain in force.

Certain policies are entitled to share in the profits that arise from the non-investment-linked business. This profit sharing is governed by the *Life Insurance Act* 1995 (Cth) and the life insurance companies' constitutions. This profit sharing amount is treated as an expense in the income statement.

Life investment contracts

Profit from investment-linked business is derived as the excess of the fees earned by the shareholder for managing the funds invested over operating expenses.

(iii) Premium and related revenue

Life insurance contracts

Premiums are separated into their revenue and liability components. Premium amounts earned by providing services and bearing risks, including protection business, are treated as revenue. Other premium amounts received, net of initial fee income, which are akin to deposits, are recognised as an increase in policy liabilities.

Premiums with a regular due date are recognised as revenue on a due basis. Premiums with no due date are recognised as revenue or an increase in policy liabilities on a cash received basis. Premiums due before the end of the year but not received at balance date are included as outstanding premiums receivable. Premiums due after but received before the end of the year are accounted for as premiums in advance.

Life investment contracts

The initial fee, which is the difference between the premium received and the initial surrender value, is recognised as premium revenue. For the Group's investment contracts, all premiums are recognised as an increase in policy liabilities.

(iv) Investment revenue

Dividend and interest income is brought to account on an accruals basis when the life insurance controlled entity obtains control of the right to receive the dividend or interest income.

Net realised and unrealised profits and losses represent changes in the measurement of fair values in respect of all investments recognised at fair value and are recognised in the income statement in the period in which they occur.

(v) Claims expense

Claims are recognised when the liability to a policyholder under a policy contract has been established or upon notification of the insured event, depending on the type of claim. Claims are separated into their expense and liability components.

Life insurance contracts

Claims incurred that relate to the provision of services and bearing of risks are treated as expenses and are recognised on an accruals basis.

1 Principal accounting policies (continued)

Life investment contracts

Claims incurred in respect of investment contracts, which are in the nature of investment withdrawals, are recognised as a reduction in policy liabilities. For investment contracts, all claims are recognised as a decrease in policy liabilities.

(vi) Basis of expense apportionment

All expenses charged to the income statement are equitably apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Insurance Act* 1995 (Cth) as follows:

- expenses and other outgoings that relate specifically to a particular statutory fund have been directly charged to that fund; and
- expenses and other outgoings (excluding commissions, medical fees and stamp duty relating to the policies which are all directly allocated) have been apportioned between each statutory fund and shareholders' fund.

Expenses are apportioned between classes of business by first allocating the expenses to major functions and activities, including those of sales support and marketing, new business processing and policyholder servicing, and then to classes of products using relevant activity cost drivers, including commissions, policy counts, funds under management and benchmark profit; and investment income, profits and losses on sale of property, plant and equipment, profits and losses on sale of investments, and appreciation and depreciation of investments have been directly credited or charged to the appropriate statutory fund or shareholders' fund.

(vii) Deferred acquisition costs

The extent to which policy acquisition costs are deferred varies according to the classification of the contract acquired (either life insurance or life investment).

Life insurance contracts

The costs incurred in selling or generating new business include advisor fees, commission payments, application processing costs, relevant advertising costs and costs for promotion of products and related activities. These costs are deferred to the extent they are deemed recoverable in the premiums or policy charges (as appropriate for each policy class). Acquisition costs deferred are amortised over the period that they will be recovered from premiums or policy charges.

Life investment contracts

The incremental costs incurred in selling or generating new business are expensed as incurred.

(mm) Dividend income

Dividend income is recorded in the income statement on an accruals basis when the Group's right to receive the dividend is established.

(nn) Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction.

Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time. Account keeping charges, credit card fees, money transfer fees and loan servicing fees are recognised in the period the service is provided.

(oo) Gains less losses on instruments at fair value

Gains less losses on instruments at fair value comprises fair value gains and losses from four distinct activities:

- trading derivatives;
- trading securities;
- instruments designated in hedge relationships; and
- other assets and liabilities designated at fair value through profit and loss.

In general, gains less losses on trading derivatives recognises the full change in fair value of the derivatives inclusive of interest income and expense. However, in cases where the trading derivative is economically offsetting movements in the fair value of an asset or liability designated as being carried at fair value through profit and loss, the interest income and expense attributable to the derivatives is recorded within net interest income and not part of the fair value movement of the trading derivative.

Interest income and expense on trading securities are reported within interest income.

Gains less losses on hedging assets, liabilities and derivatives designated in hedge relationships recognises fair value movements on both the hedged item and hedging derivative in a fair value hedge relationship, and hedge ineffectiveness for both fair value and cash flow hedge relationships. Interest income and expense on both hedging instruments and instruments designated as fair value through profit and loss at initial recognition are recognised in net interest income.

Gains less losses on financial assets and liabilities designated at fair value through profit and loss recognises fair value movements (excluding interest) on those items designated as fair value through profit and loss at inception.

(pp) Equity-based compensation

The Group provides equity-based compensation to its employees in respect of services received. The value of the services received is measured by reference to the grant date fair value of the shares, performance options or performance rights provided to employees. The fair value expense of each tranche of shares, performance options or performance right granted is recognised in the income statement on a straight-line basis, adjusted for forfeitures, over the period that the services are received by the Group, which is the vesting period, with a corresponding increase in reserves.

Notes to the financial statements

1 Principal accounting policies (continued)

The fair value of share plans granted is generally determined by reference to the weighted average Company share price in the week up to, and including, the date on which the shares were granted. Existing employee share plans are linked to internal performance or service conditions and vest when these conditions are satisfied.

The fair value and expected vesting period of the performance options and performance rights granted are determined using a simulated version of the Black-Scholes model. The simulation approach allows the valuation to take into account both the probability of achieving the market-based performance hurdle required for the performance options or performance rights to vest and the potential for early exercise of vested performance options or performance rights.

The key assumptions and inputs for the valuation model are the exercise price of the performance option or performance right, the expected volatility of the Company's share price, the risk-free interest rate and the expected dividend yield on the Company's shares for the life of the performance options and performance rights. When estimating expected volatility, historic daily share prices are analysed to arrive at annual and cumulative historic volatility estimates (which may be adjusted for any abnormal periods or non-recurring significant events). Trends in the data are analysed to estimate volatility movements in the future for use in the numeric pricing model.

Expected time to vesting (from grant date) of each performance option and performance rights is an output of the valuation model, along with the fair valuations of the performance options and performance rights.

Non-market-based performance hurdles are not taken into account when determining the fair value and expected time to vesting of performance options and performance rights. Instead, non-market-based performance conditions are taken into account by adjusting the number of performance options and performance rights included in the measurement of the expense so that ultimately, the amount recognised in the income statement reflects the number of performance options or performance rights that actually vest.

(qq) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax or other value-added tax, except where the tax incurred is not recoverable from the relevant taxation authority. In these circumstances, the tax is recognised as part of the expense or the cost of acquisition of the asset.

Receivables and payables are stated at an amount with tax included. The net amount of tax recoverable from, or payable to, the relevant taxation authority is included within other assets or other liabilities.

Cash flows are included in the cash flow statement on a gross basis. The tax component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the relevant taxation authority is classified as operating cash flows.

2 Segment information

The Group's operating and reportable segments are business units engaged in providing either different products or services, or similar products and services in different geographical areas. The businesses are managed separately as each requires a strategy focused on the specific services provided or the economic and regulatory environment in which it operates.

The Group's business is organised into four operating segments, three of which are managed along regional lines: Australia Region, United Kingdom Region and New Zealand Region, which include banking and wealth management products; as well as nabCapital (which is managed globally). nabCapital is the Group's global division, with key lines of business comprising Institutional Banking, Corporate Finance, Markets, and Structuring and Investments. It operates in three core regions of Australia (which incorporates the smaller businesses including Americas and Asia), New Zealand and the United Kingdom. The Group's Central Functions are Group Finance, Group Risk, Group Economics, Business Development, Group Legal, Group Funding and Group Treasury, People and Culture and other unallocated items which are not considered to be separate reportable operating segments.

The Group evaluates operating segments performance on the basis of cash earnings and return on equity. Cash earnings represents the net profit attributable to members of the Company, adjusted for certain non-cash items, distributions, and significant items. The segment information provided below is prepared on a gross ongoing basis, such that operations that will not form part of the continuing Group are excluded from all periods presented. Wealth Management net adjustment represents certain adjustments required to reconcile between the presentation format of the statutory and management results for the Wealth Management business.

Revenues, expenses and tax directly associated with each business segment are included in determining their result. Transactions between business segments are based on agreed recharges between segments operating within the same country and are normally at arm's length between segments operating in different countries.

Major customers

Revenues from no one single customer amount to greater than 10% of the Group's revenues.

Operating segments

	Operating segments					
Year ended September 30, 2007	Australia Region $m	United Kingdom Region $m	New Zealand Region $m	nabCapital $m	Central Functions $m	Total $m
Cash earnings	2,913	592	379	715	70	4,669
Total net interest income	5,547	1,982	864	1,134	238	9,765
Total Wealth Management and other operating income	2,984	898	348	616	70	4,916
Total operating expenses	4,078	1,751	608	790	312	7,539
Charge/(reversal) to provide for doubtful debts	389	290	46	69	(4)	790
Segment assets	317,291	77,567	37,035	193,628	7,069	632,590

	Operating segments					
Year ended September 30, 2006	Australia Region $m	United Kingdom Region $m	New Zealand Region $m	nabCapital $m	Central Functions $m	Total $m
Cash earnings	2,397	518	321	613	133	3,982
Total net interest income	4,896	1,852	797	937	295	8,777
Total Wealth Management and other operating income	2,768	971	333	572	205	4,849
Total operating expenses	4,089	1,782	603	765	293	7,532
Charge/(reversal) to provide for doubtful debts	278	307	46	(24)	(2)	605
Segment assets	278,487	64,439	33,624	146,127	19,930	542,607

2 Segment information (continued)

Reconciliations between segment and statutory results are as follows:

	Group 2007 $m	Group 2006 $m
Cash earnings		
Cash earnings for operating segments	**4,599**	3,849
Central Functions	**70**	133
Distributions	**(283)**	(254)
Group cash earnings - ongoing	**4,386**	3,728
Disposed operations	**8**	175
Non-cash earnings items (after tax)		
Distributions	**283**	254
Treasury shares	**(123)**	(126)
Fair value and hedge ineffectiveness	**154**	64
Investment earnings on shareholders' retained profits discount rate variation	**(44)**	(6)
Revaluation losses on exchangeable capital units	**(86)**	(112)
Net profit on sale of controlled entities	**-**	108
Fair value gain on economic hedge of the proceeds on sale of controlled entities	**-**	22
Significant items	**-**	285
Net profit attributable to members of the Company	**4,578**	4,392
Net interest income		
Total net interest income for operating segments	**9,527**	8,482
Central Functions	**238**	295
Wealth Management net adjustment	**2**	8
Disposed operations	**(21)**	(99)
Total net interest income	**9,746**	8,686
Total Wealth Management and other operating income		
Wealth Management net operating income and other operating income for operating segments	**4,846**	4,644
Central Functions	**70**	205
Elimination of inter-segment other operating income	**(111)**	(172)
Net profit - minority interest	**994**	749
Wealth Management net adjustment	**433**	285
Treasury shares	**(131)**	(138)
Fair value and hedge ineffectiveness	**226**	92
Investment earnings on shareholders' retained profits discount rate variation	**(63)**	(6)
Revaluation losses on exchangeable capital units	**(79)**	(122)
Net profit on sale of controlled entities	**-**	196
Fair value gain on economic hedge of the proceeds on sale of controlled entities	**-**	31
Disposed operations	**98**	739
Significant items	**-**	334
Total life insurance and other income	**6,283**	6,837
Total operating expenses		
Total operating expenses for operating segments	**7,227**	7,239
Central Functions	**312**	293
Elimination of inter-segment operating expenses	**(111)**	(172)
Wealth Management net adjustment	**(82)**	(126)
Net loss on sale of controlled entities	**-**	63
Charge to provide for doubtful debts for operating segments	**790**	605
Charge to provide for doubtful debts - disposed operations	**-**	1
Disposed operations	**66**	413
Significant items	**-**	(68)
Total operating expenses	**8,202**	8,248

2 Segment information (continued)

	Group	
	2007	2006
	$m	$m
Reportable segment assets		
Total assets for operating segments	**625,521**	522,677
Central Functions	**7,069**	19,930
Elimination of inter-segment assets	**(68,304)**	(58,150)
Disposed operations	**348**	328
Total assets	**564,634**	484,785

Geographical information

The Group has operations in Australia (the Company's country of domicile), Europe, New Zealand, the United States and Asia. The allocation of revenue and assets is based on the geographical location in which transactions are booked.

	Group			
	Revenue		Non-current assets (1)	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Australia	**32,465**	26,940	**5,538**	5,182
Europe	**6,976**	6,676	**1,510**	1,575
New Zealand	**4,197**	3,604	**373**	421
United States	**466**	423	**4**	5
Asia	**530**	797	**1**	2
Total before inter-geographic eliminations	**44,634**	38,440	**7,426**	7,185
Elimination of inter-geographic items	**(186)**	(205)	**-**	-
Total	**44,448**	38,235	**7,426**	7,185

(1) *Non-current assets refer to assets that include amounts expected to be recovered more than 12 months after the balance sheet date. They do not include financial instruments, deferred tax assets, post-employment benefits assets or rights under insurance contracts.*

3 Net interest income

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Interest income				
Due from other banks	**1,419**	1,062	**1,181**	985
Marketable debt securities (1)	**1,381**	1,155	**1,099**	944
Loans and advances (2)	**24,165**	19,959	**15,823**	13,124
Due from customers on acceptances	**3,518**	2,750	**3,518**	2,750
Due from controlled entities	**-**	-	**1,308**	1,380
Other interest income	**475**	627	**428**	279
Total interest income	**30,958**	25,553	**23,357**	19,462
Interest expense				
Due to other banks and official institutions	**2,053**	1,686	**1,875**	1,521
Deposits and other borrowings (3)	**12,621**	10,862	**8,674**	7,584
Liability on acceptances	**2,164**	1,758	**2,164**	1,758
Bonds, notes and subordinated debt (4)	**4,333**	2,478	**3,309**	2,101
Due to controlled entities	**-**	-	**1,210**	804
Other debt issues	**41**	83	**3**	18
Total interest expense	**21,212**	16,867	**17,235**	13,786
Net interest income	**9,746**	8,686	**6,122**	5,676

(1) *Consists of interest on trading securities, investments - available for sale, and investments - held to maturity.*

(2) *Includes $1,769 million (2006: $1,434 million) of interest income on loans and advances accounted for at fair value.*

(3) *Includes $754 million (2006: $607 million) of interest expense on deposits and other borrowings accounted for at fair value.*

(4) *Includes $255 million (2006: $131 million) of interest expense on bonds, notes and subordinated debt accounted for at fair value.*

4 Other income

	Note	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Gains less losses on instruments at fair value					
Trading securities		**(19)**	55	**(8)**	73
Trading derivatives [(1)]		**490**	335	**172**	232
Assets, liabilities and derivatives designated in hedge relationships		**118**	57	**34**	28
Assets and liabilities designated at fair value [(1)]		**50**	29	**74**	14
Impairment of investments - available for sale		**(40)**	-	-	-
Other		**1**	(5)	**(2)**	(5)
Total gains less losses on instruments at fair value		**600**	471	**270**	342
Other operating income					
Dividend revenue					
Controlled entities		-	-	**974**	845
Other entities		**11**	16	**7**	14
Profit on sale of property, plant and equipment and other assets		**51**	33	**20**	3
Banking fees		**887**	833	**783**	726
Money transfer fees		**591**	564	**367**	367
Fees and commissions		**1,572**	1,492	**575**	540
Investment management fees		**474**	438	-	-
Foreign exchange income/(expense)		**24**	24	**162**	(71)
Fleet management fees		**19**	148	**19**	18
Rentals received on leased vehicle assets		**161**	654	**96**	85
Revaluation (losses)/gains on exchangeable capital units		**(79)**	(122)	**25**	(32)
Other income		**214**	339	**130**	151
Total other operating income		**3,925**	4,419	**3,158**	2,646
Significant revenue					
Pensions revenue	4(a)	-	319	-	43
Net profit from the sale of National Europe Holdings (Ireland) Limited	4(a)	-	15	-	-
Total significant revenue		-	334	-	43

[(1)] *Gains less losses on derivatives designated under the fair value option (FVO) are reported within trading derivatives and amounted to a gain of $58 million for the 2007 year (2006: $6 million). The net profit and loss impact of this amount and assets and liabilities designated at fair value represents the volatility attributable to the Group's application of FVO.*

Net profit from the sale of controlled entities - Custom Fleet business

On July 31, 2006, the Group sold its Custom Fleet business to GE Commercial Finance. The assets and liabilities of these entities no longer form part of the Group. The profit for the 2006 year arising from the sale was as follows:

	Proceeds from sale $m	Cost of assets sold $m	Profit on sale (before tax) $m	Income tax expense $m	Profit on sale (after tax) $m
Custom Fleet business	571	(375)	196	(25)	171

(a) Individually significant revenue items included in net profit

Pensions revenue

During the 2006 year, an agreement was reached between the United Kingdom staff members and trustees to reforms to the United Kingdom pension schemes. This resulted in significant revenue amounting to $319 million ($223 million after tax). This amount consisted of past service gain revenue of $387 million and expected return on asset revenue of $274 million, offset by interest costs of $231 million and current service costs of $111 million.

Sale of National Europe Holdings (Ireland) Limited

During the 2005 year, the Group sold to Danske Bank A/S all of the share capital of National Europe Holdings (Ireland) Limited, the immediate parent entity of Northern Bank Limited and National Irish Bank Limited (Irish Banks). During the 2006 year, $15 million of provisions and other costs expected to be incurred in respect of the sale of the Irish Banks were written back to the income statement as these costs were no longer expected to be incurred.

5 Operating expenses

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Personnel expenses				
Salaries and related on-costs	**2,865**	2,739	**1,817**	1,736
Superannuation costs - defined contribution plans	**185**	170	**147**	134
Superannuation costs - defined benefit plans	**16**	-	**16**	-
Performance-based compensation				
Cash	**464**	347	**290**	234
Equity-based compensation	**217**	143	**166**	100
Other expenses	**482**	470	**321**	303
Total personnel expenses	**4,229**	3,869	**2,757**	2,507
Occupancy-related expenses				
Operating lease rental expense	**353**	345	**221**	223
Other expenses	**166**	178	**65**	79
Total occupancy-related expenses	**519**	523	**286**	302
General expenses				
Fee and commission expense	**202**	197	**101**	126
Depreciation and amortisation of property, plant and equipment	**258**	246	**144**	131
Amortisation of intangible assets	**216**	188	**130**	119
Depreciation on leased vehicle assets	**53**	339	**1**	59
Operating lease rental expense	**59**	89	**45**	74
Advertising and marketing	**225**	221	**167**	172
Charge to provide for operational risk event losses	**13**	120	**8**	95
Communications, postage and stationery	**342**	356	**165**	167
Computer equipment and software	**223**	241	**145**	157
Data communication and processing charges	**94**	93	**44**	49
Transport expenses	**80**	80	**55**	55
Professional fees	**396**	427	**244**	283
Travel	**93**	82	**50**	43
Loss on disposal of property, plant and equipment and other assets	**19**	22	**18**	9
Impairment losses/(reversal) recognised (1)	**68**	(9)	**67**	6
Other expenses	**323**	495	**18**	1
Total general expenses	**2,664**	3,187	**1,402**	1,546
Total charge to provide for doubtful debts	**790**	606	**457**	262

(1) *Includes $64 million (2006: $nil) of impairment losses relating to the impairment of leased vehicle assets of the Group's Commercial Fleet business.*

Net loss from the sale of controlled entities - MLC Asia businesses

On May 8, 2006, the Group sold its life insurance and related wealth management companies in Asia to AXA Asia Pacific Holdings. The assets and liabilities of these entities no longer form part of the Group. The loss for the 2006 year arising from the sale was as follows:

	Proceeds from sale $m	Cost of assets sold $m	Loss on sale (before tax) $m	Income tax benefit $m	Loss on sale (after tax) $m
MLC Asia businesses	565	(628)	(63)	-	(63)

6 Income tax expense

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Total income tax expense				
Current tax	**2,251**	2,037	**1,042**	1,120
Deferred tax	**4**	97	**1**	(117)
Total income tax expense	**2,255**	2,134	**1,043**	1,003
Reconciliation of income tax expense shown in the income statement with prima facie tax payable on the pre-tax accounting profit				
Profit before income tax expense	**7,827**	7,275	**4,648**	4,090
Deduct profit before income tax expense attributable to the life insurance statutory funds and their controlled trusts	**(1,900)**	(1,537)	**-**	-
Total profit excluding that attributable to the statutory funds of the life insurance business, before income tax expense	**5,927**	5,738	**4,648**	4,090
Prima facie income tax at 30%	**1,778**	1,721	**1,394**	1,227
(Deduct)/add: Tax effect of amounts which are not (assessable)/deductible				
Dividend income adjustments	**(3)**	(12)	**(287)**	(240)
Assessable foreign income	**9**	2	**6**	5
Depreciation on buildings not deductible	**6**	6	**-**	1
Deferred tax assets not recognised	**-**	3	**-**	-
Over provision in prior years	**(78)**	(8)	**(37)**	(9)
Foreign tax rate differences	**44**	34	**24**	16
Restatement of deferred tax balances for changes in UK and NZ tax rates	**(17)**	-	**4**	-
Foreign branch income not assessable	**(59)**	(46)	**(59)**	(46)
Profit on sale of controlled entities not assessable	**-**	(19)	**-**	-
Assessable income on treasury shares	**31**	30	**-**	-
Loss on exchangeable capital units not deductible	**31**	27	**-**	-
Interest expense on exchangeable capital units not claimed as deductible	**7**	20	**7**	20
Other	**(77)**	(45)	**(9)**	29
Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business	**1,672**	1,713	**1,043**	1,003
Income tax expense attributable to the statutory funds of the life insurance business	**583**	421	**-**	-
Total income tax expense	**2,255**	2,134	**1,043**	1,003

	Amount per share cents	Total amount $m	Franked amount per share %

7 Dividends and distributions

Dividends recognised by the Company for the years shown below at September 30:

	Amount per share cents	Total amount $m	Franked amount per share %
2007			
Final 2006 ordinary	**84**	**1,370**	**90**
Interim 2007 ordinary	**87**	**1,418**	**90**
Deduct: Bonus shares in lieu of dividend	**n/a**	**(103)**	**n/a**
Total dividends paid		**2,685**	
2006			
Final 2005 ordinary	83	1,327	80
Interim 2006 ordinary	83	1,334	80
Deduct: Bonus shares in lieu of dividend	n/a	(107)	n/a
Total dividends paid		2,554	

Franked dividends declared or paid during the year or declared after year end were franked at a tax rate of 30% (2006: 30%).

Proposed final dividend

On November 9, 2007, the directors declared the following dividend:

	Amount per share cents	Total amount $m	Franked amount per share %
Final 2007 ordinary	**95**	**1,540**	**100**

The final 2007 ordinary dividend is payable on December 18, 2007. The financial effect of this dividend has not been brought to account in the financial statements for the year ended September 30, 2007 and will be recognised in subsequent financial reports.

Australian franking credits

The franking credits available to the Group at September 30, 2007, after allowing for tax payable in respect of the current reporting period's profit that will be subject to Australian income tax and the receipt of dividends recognised as receivable at balance date, are estimated to be $660 million (2006: $525 million). Franking credits to be utilised as a result of the payment of the proposed final dividend are $660 million (2006: $525 million). The extent to which future dividends will be franked will depend on a number of factors including the level of the profits that will be subject to Australian income tax and any future changes to Australia's business tax system.

New Zealand imputation credits

The Company is now able to attach available New Zealand imputation credits to dividends paid. As a result, New Zealand imputation credits of NZ$0.10 per share will be attached to the final 2007 ordinary dividend payable by the Company. New Zealand imputation credits are only relevant for shareholders who are required to file New Zealand income tax returns.

Distributions on other equity instruments

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
National Income Securities	**152**	139	**152**	139
Trust Preferred Securities	**55**	56	**-**	-
Trust Preferred Securities II	**54**	59	**-**	-
National Capital Instruments	**22**	-	**-**	-
Total distributions on other equity instruments	**283**	254	**152**	139

8 Earnings per share

	Group			
	2007		2006	
	Basic	**Diluted**	Basic	Diluted
Earnings ($m)				
Net profit attributable to members of the Company	**4,578**	**4,578**	4,392	4,392
Distributions on other equity instruments	**(283)**	**(283)**	(254)	(254)
Adjusted earnings	**4,295**	**4,295**	4,138	4,138
Weighted average ordinary shares (No. '000)				
Weighted average ordinary shares	**1,623,858**	**1,623,858**	1,599,919	1,599,919
Treasury shares	**(27,228)**	**(27,228)**	(24,315)	(24,315)
Potential dilutive ordinary shares				
Performance options and performance rights	**-**	**1,836**	-	3,673
Partly paid ordinary shares	**-**	**210**	-	288
Employee share plans	**-**	**1,717**	-	1,113
Total weighted average ordinary shares	**1,596,630**	**1,600,393**	1,575,604	1,580,678
Earnings per share (cents)	**269.0**	**268.4**	262.6	261.8

There has been no material conversion to, calls of, or subscriptions for ordinary shares, or issues of potential ordinary shares since September 30, 2007 and before the completion of this financial report.

During the year ended September 30, 2007, there were 8,990,546 potential ordinary shares as a result of the exchangeable capital units on issue. The exchangeable capital units have not been included in the diluted earnings per share calculation because they were anti-dilutive for the 2007 and 2006 years. There are no exchangeable capital units remaining on issue.

9 Cash and liquid assets

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Coins, notes and cash at bank	**6,191**	6,576	**812**	971
Securities purchased under agreements to resell	**6,030**	5,715	**5,943**	5,526
Other (including bills receivable and remittances in transit)	**575**	477	**(565)**	(584)
Total cash and liquid assets	**12,796**	12,768	**6,190**	5,913

Included within cash and liquid assets are cash and liquid assets within the Group's life insurance business statutory funds of $352 million (2006: $402 million) which are subject to restrictions imposed under the *Life Insurance Act* 1995 (Cth) and other restrictions and therefore are not available for use in operating, investing or financing activities of other parts of the Group.

10 Due from other banks

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Central banks and other regulatory authorities	**1,845**	3,740	**436**	1,060
Other banks	**23,299**	20,632	**21,134**	18,505
Total due from other banks	**25,144**	24,372	**21,570**	19,565

11 Trading and hedging derivative assets and liabilities

Derivative financial instruments held or issued for trading purposes

The Group maintains trading positions in a variety of derivative financial instruments and acts primarily in the market by satisfying the needs of its customers through foreign exchange, interest rate-related services and credit-related contracts. In addition, the Group takes positions on its own account, and carries an inventory of capital market instruments. All positions held for trading purposes are revalued on a daily basis to reflect market movements, and any revaluation profit or loss is recognised immediately in the income statement. It is the Group's policy from a trading risk viewpoint to maintain a substantially matched position in assets and liabilities in foreign currencies and net exposure to exchange risk in this respect is not material.

In certain instances, the fair value movements of derivatives held within the trading classification are offset by the fair value movements on underlying assets or liabilities held at fair value upon initial recognition. This approach has been adopted by the Group for certain economically hedged relationships that do not qualify for hedge accounting. *The fair value of these assets and liabilities is disclosed in note 44.*

Derivative financial instruments held for hedging purposes

The operations of the Group are subject to risk of interest rate fluctuations, to the extent of the repricing profile of the Group's balance sheet. Derivative financial instruments are held or issued for the purposes of managing existing or anticipated interest rate risk from this source which is primarily in the Group's banking operations. The Group monitors its non-trading interest rate risk by simulating future net interest income from applying a range of possible future interest rate environments to its projected balance sheet.

The Group also holds or issues derivative financial instruments for the purpose of hedging foreign exchange risk. Foreign exchange derivatives are used predominantly to hedge foreign currency borrowings and anticipated cash flows.

The Group measures hedge effectiveness on a retrospective and prospective basis at inception and over the term of the hedge relationship. Hedge effectiveness is assessed through the application of regression analysis. Through this application, the Group ensures that on both a retrospective and prospective basis the correlation in change in value of the hedging derivative and hedged item is within requirements specified within accounting standards to apply hedge accounting.

(a) Fair value hedges
The Group applies fair value hedge accounting to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk and/or assets and liabilities subject to foreign exchange risk.

(b) Cash flow hedges
The Group applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk on variable rate assets and liabilities. *For further information, refer to cash flow hedge reserve in note 35.*

The table below sets out the fair value of both trading and hedging derivatives including the notional principal values:

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Trading derivatives				
Assets	**23,019**	13,384	**20,701**	12,311
Liabilities	**23,248**	12,008	**20,925**	11,002
Hedging derivatives				
Assets	**1,203**	480	**687**	383
Liabilities	**536**	333	**401**	179

11 Trading and hedging derivative assets and liabilities (continued)

Trading derivative financial instruments

	Group					
	Notional principal [(1)] 2007 $m	**Fair value assets 2007 $m**	**Fair value liabilities 2007 $m**	Notional principal 2006 $m	Fair value assets 2006 $m	Fair value liabilities 2006 $m
Foreign exchange rate-related contracts						
Spot and forward contracts to purchase foreign exchange	**455,885**	**7,477**	**8,321**	353,441	3,211	3,024
Cross currency swaps	**160,863**	**6,332**	**5,112**	141,389	3,641	2,070
Options/swaptions purchased	**19,798**	**372**	**-**	12,845	264	-
Options/swaptions written	**10,231**	**-**	**363**	13,339	-	267
Total foreign exchange rate-related contracts	**646,777**	**14,181**	**13,796**	521,014	7,116	5,361
Interest rate-related contracts						
Forward rate agreements	**202,102**	**33**	**39**	153,325	15	13
Swaps	**1,001,436**	**7,295**	**7,900**	900,882	4,921	5,361
Futures	**560,215**	**30**	**176**	502,388	68	28
Options/swaptions purchased	**109,649**	**117**	**81**	22,938	119	43
Options/swaptions written	**55,510**	**221**	**175**	80,862	252	305
Total interest rate-related contracts	**1,928,912**	**7,696**	**8,371**	1,660,395	5,375	5,750
Credit derivatives	**24,373**	**85**	**66**	24,945	61	77
Commodity derivatives	**5,617**	**809**	**753**	4,878	550	539
Other derivatives	**3,487**	**248**	**262**	4,115	282	281
Total derivatives held for trading	**2,609,166**	**23,019**	**23,248**	2,215,347	13,384	12,008

Hedging derivative financial instruments

Derivatives held for hedging - fair value hedges						
Foreign exchange rate-related contracts						
Cross currency swaps	**64,125**	**422**	**93**	53,306	196	74
Total foreign exchange rate-related contracts	**64,125**	**422**	**93**	53,306	196	74
Interest rate-related contracts						
Swaps	**28,955**	**193**	**84**	25,536	105	176
Total interest rate-related contracts	**28,955**	**193**	**84**	25,536	105	176
Total derivatives held for hedging - fair value hedges	**93,080**	**615**	**177**	78,842	301	250
Derivatives held for hedging - cash flow hedges						
Interest rate-related contracts						
Forward rate agreements	**-**	**-**	**-**	1,500	-	-
Swaps	**73,888**	**587**	**358**	58,009	179	83
Futures	**100**	**1**	**1**	-	-	-
Total interest rate-related contracts	**73,988**	**588**	**359**	59,509	179	83
Total derivatives held for hedging - cash flow hedges	**73,988**	**588**	**359**	59,509	179	83
Total hedging derivative financial instruments	**167,068**	**1,203**	**536**	138,351	480	333

(1) *Notional principal, or notional amount, of a derivative contract is a hypothetical underlying quantity upon which interest rate or other payment obligations are computed.*

11 Trading and hedging derivative assets and liabilities (continued)

In certain instances, the Group has hedged forecast probable cash flows, which primarily vary with interest rates. These cash flows are expected to impact the income statement in the following periods:

As at September 30, 2007	0 to 1 year $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Greater than 5 years $m	Total $m
Forecast receivable cash flows	2,182	1,301	646	472	236	469	5,306
Forecast payable cash flows	3,174	1,877	878	493	242	539	7,203

As at September 30, 2006	0 to 1 year $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Greater than 5 years $m	Total $m
Forecast receivable cash flows	995	669	504	246	142	103	2,659
Forecast payable cash flows	2,225	1,522	954	490	222	34	5,447

12 Trading securities

	Group		Company	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Government bonds, notes and securities	**1,084**	1,586	**660**	1,281
Semi-government bonds, notes and securities	**4,266**	2,684	**4,266**	2,684
Corporate/financial institution bonds, notes and securities	**15,838**	8,888	**14,681**	8,331
Other bonds, notes and securities	**84**	582	**76**	577
Total trading securities	**21,272**	13,740	**19,683**	12,873

13 Investments - available for sale

	Group		Company	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Government bonds, notes and securities	**12**	12	**7**	9
Corporate/financial institution bonds, notes and securities	**1,153**	1,459	**241**	956
Other bonds, notes and securities	**180**	22	**11**	-
Total investments - available for sale	**1,345**	1,493	**259**	965

14 Investments - held to maturity

	Group		Company	
	2007 $m	2006 $m	**2007 $m**	2006 $m
Government bonds, notes and securities	**73**	64	**73**	59
Corporate/financial institution bonds, notes and securities	**4,935**	1,302	**869**	805
Other bonds, notes and securities	**8**	22	**8**	19
Total investments - held to maturity	**5,016**	1,388	**950**	883

15 Investments relating to life insurance business

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Equity security investments				
Direct	**819**	1,651	**-**	-
Indirect	**39,549**	33,185	**-**	-
	40,368	34,836	**-**	-
Debt security investments				
Direct	**2,785**	2,561	**-**	-
Indirect	**15,294**	13,457	**-**	-
	18,079	16,018	**-**	-
Units held in property trusts				
Direct	**-**	37	**-**	-
Indirect	**4,183**	3,893	**-**	-
	4,183	3,930	**-**	-
Total investments relating to life insurance business	**62,630**	54,784	**-**	-

Direct investments refer to investments that are held directly with the issuer of the investment. Indirect investments refer to investments that are held through unit trusts or similar investment vehicles.

Investment assets held in statutory funds are not available for use by other parts of the Group's business *(refer to note 1(p))*.

16 Other financial assets at fair value

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Loans [(1)]	**19,564**	16,774	**-**	-
Securities at fair value	**3,566**	3,929	**-**	-
Other financial assets at fair value	**2,059**	1,420	**914**	780
Total other financial assets at fair value [(2)]	**25,189**	22,123	**914**	780

[(1)] *Loans at fair value represent "Other term lending" loans. This amount includes a positive fair value adjustment of $336 million (2006: $362 million positive) and a credit risk adjustment of $156 million (2006: $81 million).*

[(2)] *This amount includes a positive fair value adjustment of $105 million (2006: $202 million positive) being derived from valuation techniques rather than directly from quoted market prices, primarily attributable to loans at fair value.*

17 Loans and advances

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Overdrafts	**16,514**	15,470	**6,252**	5,517
Credit card outstandings	**7,331**	7,321	**4,976**	4,647
Asset and lease financing	**17,756**	16,953	**12,145**	10,874
Housing loans	**185,809**	171,762	**140,643**	129,425
Other term lending	**93,676**	71,984	**68,712**	48,181
Other lending	**4,679**	4,699	**4,752**	3,752
Total gross loans and advances	**325,765**	288,189	**237,480**	202,396
Deduct: Unearned income and deferred net fee income	**(2,788)**	(2,391)	**(1,913)**	(1,630)
Provision for doubtful debts *(refer to note 18)*	**(2,107)**	(2,021)	**(1,402)**	(1,251)
Total net loans and advances	**320,870**	283,777	**234,165**	199,515

During the 2007 year, the Group sold or transferred $12,300 million (2006: $4,771 million) of loans and advances through securitisation or other arrangements that do not qualify for derecognition from the balance sheet. The financial assets do not qualify for derecognition because the Group remains exposed to the risk and rewards of ownership on an ongoing basis. The Group continues to be exposed primarily to the liquidity risk, interest rate risk and credit risk of the loans and advances. The Group is also exposed to the residual rewards of the loans and advances as a result of its ownership interest in the transferee entities.

Investment in finance lease receivables

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Due within 1 year	**4,128**	3,949	**2,586**	2,291
Due within 1 – 5 year(s)	**6,163**	6,571	**4,345**	4,320
Due after 5 years	**2,172**	2,266	**114**	93
Total investment in finance lease receivables	**12,463**	12,786	**7,045**	6,704

Investment in finance lease receivables, net of unearned income

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Due within 1 year	**3,224**	3,357	**1,898**	1,800
Due within 1 – 5 year(s)	**5,269**	5,567	**3,467**	3,456
Due after 5 years	**2,142**	2,244	**90**	74
Total investment in finance lease receivables, net of unearned income	**10,635**	11,168	**5,455**	5,330

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m

18 Provisions for doubtful debts

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Specific provision for doubtful debts	**307**	184	**246**	137
Collective provision for doubtful debts	**1,800**	1,838	**1,156**	1,115
Total provision for doubtful debts	**2,107**	2,022	**1,402**	1,252
Deduct: Specific provision for off-balance sheet credit-related commitments	**-**	(1)	**-**	(1)
Net provision for doubtful debts	**2,107**	2,021	**1,402**	1,251

	2007			2006		
Group	**Specific**	**Collective**	**Total**	Specific	Collective	Total
Opening balance	**184**	**1,838**	**2,022**	281	1,649	1,930
Transfer to/(from) specific/collective provision	**693**	**(693)**	**-**	470	(470)	-
Bad debts recovered	**207**	**-**	**207**	230	-	230
Bad debts written off	**(790)**	**-**	**(790)**	(782)	-	(782)
Charge to income statement	**-**	**790**	**790**	-	606	606
Disposal of controlled entities	**-**	**-**	**-**	(7)	(1)	(8)
Foreign currency translation and other adjustments	**13**	**(135)**	**(122)**	(8)	54	46
Balance at end of year	**307**	**1,800**	**2,107**	184	1,838	2,022

	2007			2006		
Company	**Specific**	**Collective**	**Total**	Specific	Collective	Total
Opening balance	**137**	**1,115**	**1,252**	214	1,016	1,230
Transfer to/(from) specific/collective provision	**399**	**(399)**	**-**	168	(168)	-
Bad debts recovered	**90**	**-**	**90**	119	-	119
Bad debts written off	**(381)**	**-**	**(381)**	(364)	-	(364)
Charge to income statement	**-**	**457**	**457**	-	262	262
Foreign currency translation and other adjustments	**1**	**(17)**	**(16)**	-	5	5
Balance at end of year	**246**	**1,156**	**1,402**	137	1,115	1,252

19 Asset quality disclosures

The following table provides an analysis of the asset quality of the Group's loans and advances for the last two years as at September 30. Gross amounts have been prepared without regard to security available for such loans and advances.

	Group	
	2007	2006
	$m	$m
Total impaired assets [(1) (2)]		
Gross impaired assets [(3)]	**1,094**	904
Specific provision for doubtful debts	**(307)**	(184)
Net impaired assets	**787**	720

[(1)] *Impaired assets consist of retail loans (excluding credit card loans and portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue, non-retail loans which are contractually past due 90 days and there is sufficient doubt about the ultimate collectibility of principal and interest, and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are classified as impaired loans when they become 180 days past due (if not written off).*

[(2)] *Includes off-balance sheet credit-related commitments amounting to $5 million gross, $5 million net (2006: $7 million gross, $6 million net).*

[(3)] *The Group has reviewed its classification as to the recognition of impairment. This has resulted in the Group reclassifying defaulted loans where there is no loss expected from impaired assets to non-impaired loans 90 days past due. 2006 year comparatives have been amended to reflect this change.*

The following table provides additional information regarding non-impaired assets past due 90 days or more and fair value of security:

	Group	
	2007	2006
	$m	$m
Total non-impaired assets past due 90 days or more with adequate security [(1)]	**959**	664
Total non-impaired assets portfolio facilities past due 90 to 180 days	**248**	229
Fair value of security in respect of impaired assets [(1) (2)]	**562**	585

[(1)] *The Group has reviewed its classification as to the recognition of impairment. This has resulted in the Group reclassifying defaulted loans where there is no loss expected from impaired assets to non-impaired loans 90 days past due. 2006 year comparatives have been amended to reflect this change.*

[(2)] *Fair value of security is the amount for which that security could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. Amounts of security held in excess of the outstanding balance of individual impaired assets are not included in this table.*

20 Property, plant and equipment

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Land and buildings [1]				
Freehold				
At cost (acquired subsequent to previous valuation date)	**40**	34	**-**	-
At directors' valuation	**276**	343	**21**	25
Leasehold				
At cost (acquired subsequent to previous valuation date)	**44**	26	**18**	20
At directors' valuation	**16**	18	**-**	-
Deduct: Accumulated depreciation on buildings	**(22)**	(14)	**(15)**	(12)
	354	407	**24**	33
Leasehold improvements				
At cost	**1,124**	1,008	**770**	686
Deduct: Accumulated amortisation	**(553)**	(510)	**(393)**	(371)
	571	498	**377**	315
Furniture, fixtures and fittings and other equipment				
At cost	**658**	672	**145**	124
Deduct: Accumulated depreciation and amortisation	**(452)**	(483)	**(108)**	(100)
Deduct: Accumulated impairment losses	**(4)**	(6)	**-**	-
	202	183	**37**	24
Data processing equipment [2]				
At cost	**1,105**	1,337	**648**	781
Under finance lease	**62**	41	**44**	21
Deduct: Accumulated depreciation and amortisation	**(874)**	(1,113)	**(484)**	(642)
	293	265	**208**	160
Leased assets held as lessor				
At cost	**954**	823	**632**	459
Deduct: Accumulated amortisation	**(352)**	(299)	**(173)**	(157)
Deduct: Accumulated impairment losses	**(64)**	-	**(64)**	-
	538	524	**395**	302
Total property, plant and equipment	**1,958**	1,877	**1,041**	834

[1] *Included within land and buildings are freehold and leasehold land and buildings that are carried at directors' valuation. Had these land and buildings been recognised under the cost model, the carrying amount would have been:*

Land and buildings under the cost model	***247***	*301*	***17***	*25*

[2] *Net carrying value of assets under finance lease comprises the following:*

Data processing equipment	***36***	*20*	***36***	*20*

Reconciliations of movements in property, plant and equipment

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Land and buildings				
Balance at beginning of year	**407**	438	**33**	34
Disposals from the sale of controlled entities	**-**	(2)	**-**	-
Additions	**38**	13	**-**	-
Disposals	**(71)**	(65)	**(7)**	-
Net amount of revaluation increments less decrements	**18**	11	**3**	-
Depreciation	**(14)**	(13)	**(4)**	(3)
Foreign currency translation adjustments	**(24)**	25	**(1)**	2
Balance at end of year	**354**	407	**24**	33

20 Property, plant and equipment (continued)

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Leasehold improvements				
Balance at beginning of year	**498**	479	**315**	303
Disposals from sale of controlled entities	**-**	(7)	**-**	-
Additions	**168**	115	**118**	69
Disposals	**(12)**	(16)	**(10)**	(8)
Amortisation	**(75)**	(78)	**(46)**	(49)
Foreign currency translation adjustments	**(8)**	5	**-**	-
Balance at end of year	**571**	498	**377**	315
Furniture, fixtures and fittings and other equipment				
Balance at beginning of year	**183**	191	**24**	26
Disposals from sale of controlled entities	**-**	(7)	**-**	-
Additions	**88**	36	**25**	8
Disposals	**(20)**	(3)	**(3)**	(1)
Impairment losses recognised	**-**	(1)	**-**	-
Depreciation and amortisation	**(42)**	(44)	**(9)**	(10)
Foreign currency translation adjustments	**(7)**	11	**-**	1
Balance at end of year	**202**	183	**37**	24
Data processing equipment				
Balance at beginning of year	**265**	235	**160**	136
Disposals from sale of controlled entities	**-**	(1)	**-**	-
Additions	**178**	157	**150**	112
Disposals	**(18)**	(19)	**(17)**	(19)
Depreciation and amortisation	**(127)**	(111)	**(85)**	(69)
Foreign currency translation adjustments	**(5)**	4	**-**	-
Balance at end of year	**293**	265	**208**	160
Leased assets held as lessor				
Balance at beginning of year	**524**	2,486	**302**	267
Disposals from sale of controlled entities	**-**	(2,002)	**-**	-
Additions	**182**	947	**182**	122
Disposals	**(36)**	(618)	**(25)**	(28)
Impairment losses recognised (1)	**(64)**	-	**(64)**	-
Reversal of impairment losses recognised	**-**	11	**-**	-
Depreciation	**(53)**	(339)	**(1)**	(59)
Foreign currency translation adjustments	**(15)**	39	**1**	-
Balance at end of year (2)	**538**	524	**395**	302

(1) *On September 25, 2007 the Group announced that it had agreed to sell its Commercial Fleet business from the Australian operating segment to Super Group Australia Pty Limited, a subsidiary of Super Group Limited, for $342 million. As the carrying value exceeds the provisional sale price, an impairment loss was recognised. After taking into account this impairment loss, no material profit or loss on final sale of these assets is expected. Subject to a number of conditions being satisfied, it is expected that the sale will complete after the issue of the financial report.*

(2) *Includes $348 million (2006: $328 million) of assets relating to the Commercial Fleet business.*

21 Investments in controlled entities

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Investments in controlled entities				
At cost	**-**	-	**15,407**	15,451
Deduct: Provision for diminution in value	**-**	-	**(154)**	(151)
Total investments in controlled entities	**-**	-	**15,253**	15,300

22 Goodwill and other intangible assets

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Goodwill				
At cost	**4,434**	4,434	**-**	-
Total goodwill	**4,434**	4,434	**-**	-
Internally generated software				
At cost	**1,272**	1,024	**612**	491
Deduct: Accumulated amortisation	**(621)**	(458)	**(385)**	(285)
Deduct: Accumulated impairment losses	**(35)**	(32)	**-**	-
Total internally generated software	**616**	534	**227**	206
Acquired software				
At cost	**515**	415	**382**	288
Deduct: Accumulated amortisation	**(264)**	(252)	**(166)**	(158)
Total acquired software	**251**	163	**216**	130
Other acquired intangible assets				
At cost	**103**	103	**-**	-
Deduct: Accumulated amortisation	**(36)**	(31)	**-**	-
Total other acquired intangible assets	**67**	72	**-**	-
Total goodwill and other intangible assets	**5,368**	5,203	**443**	336

Reconciliation of movements in goodwill and other intangible assets

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Goodwill				
Balance at beginning of year	**4,434**	4,767	**-**	-
Disposals from sale of controlled entities	**-**	(344)	**-**	-
Foreign currency translation adjustments	**-**	11	**-**	-
Balance at end of year	**4,434**	4,434	**-**	-
Internally generated software				
Balance at beginning of year	**534**	453	**206**	208
Additions from internal development	**281**	253	**122**	94
Disposals and write-offs	**-**	(4)	**-**	(4)
Amortisation	**(172)**	(147)	**(101)**	(92)
Impairment losses recognised	**(4)**	(1)	**-**	-
Foreign currency translation adjustments	**(23)**	(20)	**-**	-
Balance at end of year	**616**	534	**227**	206

22 Goodwill and other intangible assets (continued)

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Acquired software				
Balance at beginning of year	**163**	161	**130**	133
Additions	**135**	56	**118**	41
Disposals and write-offs	**(5)**	(19)	**(5)**	(17)
Amortisation	**(39)**	(36)	**(29)**	(27)
Foreign currency translation adjustments	**(3)**	1	**2**	-
Balance at end of year	**251**	163	**216**	130
Other acquired intangible assets				
Balance at beginning of year	**72**	77	**-**	-
Amortisation	**(5)**	(5)	**-**	-
Balance at end of year	**67**	72	**-**	-

Impairment and cash generating units

For the purposes of undertaking impairment testing, cash generating units (CGUs) are identified. CGUs are determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill impairment is assessed at the group of CGUs that represents the lowest level within the Group at which goodwill is maintained for internal management purposes, which is at the segment level.

Impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount as determined using a value in use calculation.

Assumptions for determining the recoverable amount of each CGU are based on past experience and expectations for the future. Cash flow projections are based on three year management approved forecasts. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each CGU.

The key assumptions in determining the recoverable amount of CGUs to which goodwill or indefinite life intangible assets has been allocated are as follows:

	Goodwill at cost		Discount rate [(1)]		Terminal value growth rate [(2)]	
	2007	2006	**2007**	2006	**2007**	2006
	$m	$m	**%**	%	**%**	%
Australia Region	**3,672**	3,659	**11.0%**	11.0%	**3.0%**	3.0%
United Kingdom Region	**498**	511	**11.0%**	11.0%	**3.0%**	3.0%
New Zealand Region	**264**	264	**11.0%**	11.0%	**3.0%**	3.0%

[(1)] *Discount rate represents the pre-tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk-adjusted, discount rate which was adjusted for specific risks relating to the CGUs and the countries in which they operate.*

[(2)] *Terminal value growth rate represents the growth rate applied to extrapolate cash flows beyond the forecast period. These growth rates are based on forecast assumptions of the CGUs long-term performance in their respective markets.*

23 Deferred tax assets

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Deferred tax assets	**1,266**	1,631	**925**	1,055
Deferred tax assets				
Specific provision for doubtful debts	**95**	56	**80**	48
Collective provision for doubtful debts	**506**	532	**338**	328
Employee entitlements	**266**	224	**210**	193
Tax losses	**51**	48	**46**	39
Pension liabilities	**4**	138	**3**	12
Other	**344**	633	**248**	435
Total deferred tax assets	**1,266**	1,631	**925**	1,055
Deferred tax asset amounts recognised in the income statement				
Provision for doubtful debts	**60**	16	**53**	14
Employee entitlements	**23**	27	**18**	20
Tax losses	**8**	6	**11**	2
Pension liabilities	**(40)**	(163)	**-**	(17)
Other	**(131)**	(96)	**(158)**	(19)
Total deferred tax asset amounts recognised in the income statement	**(80)**	(210)	**(76)**	-
Deferred tax asset amounts recognised in equity				
Cash flow hedge reserve	**(11)**	(52)	**(11)**	(52)
Equity based payments reserve	**5**	5	**5**	5
Retained profits	**(199)**	(16)	**(19)**	(1)
Total deferred tax asset amounts recognised in equity	**(205)**	(63)	**(25)**	(48)
Total deferred tax asset amounts recognised during the year	**(285)**	(273)	**(101)**	(48)

Deferred tax assets not brought to account

Deferred tax assets have not been brought to account for the following items as realisation of the benefits is not regarded as probable:

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Capital gains tax losses	**1,967**	1,933	**854**	853
Income tax losses	**37**	54	**-**	-
Temporary differences	**60**	39	**24**	28

Certain tax losses and temporary differences expire as follows: $1,053 million in 2008, $11 million in 2009 and $47 million after 2009. Other tax losses and temporary differences do not expire under current legislation.

The Australian capital losses attributable to the divestment of HomeSide Group are currently being reviewed by the Australian Taxation Office. No deferred tax asset has been brought to account in relation to these capital losses.

24 Other assets

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Accrued interest receivable	**3,368**	2,662	**2,012**	1,861
Prepayments	**146**	134	**73**	58
Receivables	**792**	520	**581**	372
Other life insurance assets				
Accrued income receivable	**35**	40	**-**	-
Outstanding premiums receivable	**78**	77	**-**	-
Unsettled investment transactions	**10**	5	**-**	-
Other	**189**	99	**-**	-
Defined benefit pension scheme assets [1]	**519**	258	**108**	202
Other	**3,099**	2,244	**1,334**	769
Total other assets	**8,236**	6,039	**4,108**	3,262

[1] *Refer to note 32 for detailed disclosures.*

25 Other financial liabilities at fair value

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Deposits and other borrowings				
On-demand and short-term deposits	**357**	-	**-**	-
Certificates of deposit	**4,718**	2,866	**495**	-
Term deposits	**4,172**	3,176	**1,889**	967
Borrowings	**5,004**	4,544	**-**	-
Bonds, notes and subordinated debt	**5,508**	3,615	**-**	-
Securities sold short	**1,876**	2,796	**1,388**	2,226
Other financial liabilities	**333**	647	**68**	269
Fair value adjustment	**(118)**	36	**(92)**	47
Total other financial liabilities at fair value	**21,850**	17,680	**3,748**	3,509

26 Deposits and other borrowings

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Deposits				
Deposits not bearing interest	**10,977**	12,136	**9,053**	7,959
On-demand and short-term deposits	**119,143**	102,094	**79,218**	65,285
Certificates of deposit	**31,996**	21,646	**29,797**	18,268
Term deposits	**73,459**	65,827	**52,545**	47,796
Securities sold under agreements to repurchase	**3,615**	5,326	**3,615**	5,326
Borrowings	**15,035**	15,248	**11,681**	13,030
Total deposits and other borrowings	**254,225**	222,277	**185,909**	157,664

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m

27 Life policy liabilities

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Life insurance contracts				
Best estimate liabilities				
Value of future policy benefits	**5,166**	4,994	-	-
Value of future expenses	**1,493**	1,303	-	-
Future charges for acquisition costs	**(56)**	(60)	-	-
Value of future revenues	**(7,153)**	(6,375)	-	-
Total best estimate liabilities for life insurance contracts	**(550)**	(138)	-	-
Value of future profits				
Value of policyholder business	**587**	591	-	-
Value of future shareholder profit margins	**1,864**	1,608	-	-
Total value of future profits	**2,451**	2,199	-	-
Unvested policyholder benefits	**166**	163	-	-
Net policy liabilities for life insurance contracts	**2,067**	2,224	-	-
Policy liabilities ceded under reinsurance	**95**	71	-	-
Gross policy liabilities for life insurance contracts	**2,162**	2,295	-	-
Life investment contracts				
Life investment contract liabilities	**50,935**	44,180	-	-
Total life policy liabilities	**53,097**	46,475	-	-

The calculation of policy liabilities is subject to various actuarial assumptions which are summarised in note 51. All policy liabilities relate to the business conducted in the statutory funds, including international life insurance funds, and will be settled from the assets of each statutory fund *(refer to note 1(z)).*

In respect of life insurance contracts with a discretionary participating feature, there are $1,589 million (2006: $1,685 million) of liabilities that relate to guarantees. In respect of investment contracts, there are $1,633 million (2006: $1,353 million) of policy liabilities subject to investment performance guarantees.

Reconciliation of movements in policy liabilities

	Group 2007 $m	Group 2006 $m
Life insurance contract liabilities		
Balance at beginning of year	**2,295**	2,822
(Decrease)/increase reflected in the income statement	**(133)**	87
Disposals	-	(614)
Balance at end of year	**2,162**	2,295
Life investment contract policy liabilities		
Balance at beginning of year	**44,180**	39,491
Increase reflected in the income statement	**6,001**	4,461
Premiums recognised in policy liabilities	**9,933**	7,699
Claims recognised in policy liabilities	**(9,179)**	(7,471)
Balance at end of year	**50,935**	44,180
Total gross policy liabilities at end of year	**53,097**	46,475
Liabilities ceded under reinsurance		
Balance at beginning of year	**(71)**	202
Decrease in reinsurance assets reflected in the income statement	**(24)**	(92)
Decrease in life insurance contracts from recapture of reinsurance treaty	-	(181)
Balance at end of year [1]	**(95)**	(71)
Net policy liabilities at end of year	**53,002**	46,404

(1) *The $95 million (2006: $71 million) reinsurance balance is included within "Other assets".*

28 Current and deferred tax liabilities

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Current tax liabilities	**254**	532	**215**	526
Deferred tax liabilities	**1,404**	1,490	**277**	342
Total income tax liabilities	**1,658**	2,022	**492**	868
Deferred tax liabilities				
Depreciation	**315**	288	**(58)**	(64)
Statutory funds	**594**	571	**-**	-
Pension assets	**47**	78	**32**	61
Other	**448**	553	**303**	345
Total deferred tax liabilities	**1,404**	1,490	**277**	342
Deferred tax liability amounts recognised in the income statement				
Depreciation	**6**	(32)	**(11)**	(5)
Statutory funds	**25**	46	**-**	-
Pension assets	**(2)**	(1)	**-**	(1)
Other	**(105)**	(126)	**(64)**	(111)
Total deferred tax liability amounts recognised in the income statement	**(76)**	(113)	**(75)**	(117)
Deferred tax liability amounts recognised in equity				
Asset revaluation reserve	**6**	-	**1**	-
Cash flow hedge reserve	**39**	(30)	**45**	(16)
Retained profits	**(29)**	47	**(29)**	43
Total deferred tax liability amounts recognised in equity	**16**	17	**17**	27
Total deferred tax liability amounts recognised during the year	**(60)**	(96)	**(58)**	(90)

The amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is $46 million (2006: $64 million).

The Company has recognised a tax consolidation distribution of $25 million (2006: $nil) from a wholly owned tax consolidation entity. The distribution was recognised as a return of equity on the Company's investment in the subsidiary.

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m

29 Provisions

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Employee entitlements	**835**	743	**749**	678
Operational risk event losses	**92**	143	**50**	99
Restructuring costs	**77**	269	**73**	171
Other	**355**	463	**89**	97
Total provisions	**1,359**	1,618	**961**	1,045

Reconciliations of movements in provisions

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Employee entitlements				
Balance at beginning of year	**743**	716	**678**	607
Provisions made	**823**	644	**484**	422
Payments out of provisions	**(705)**	(619)	**(410)**	(349)
Sale of controlled entities	**-**	(2)	**-**	-
Provision no longer required and net foreign currency movements	**(26)**	4	**(3)**	(2)
Balance at end of year	**835**	743	**749**	678
Operational risk event losses				
Balance at beginning of year	**143**	215	**99**	162
Provisions made	**20**	120	**8**	95
Payments out of provisions	**(68)**	(192)	**(59)**	(158)
Provision no longer required and net foreign currency movements	**(3)**	-	**2**	-
Balance at end of year	**92**	143	**50**	99
Restructuring costs				
Balance at beginning of year	**269**	443	**171**	254
Payments out of provisions	**(152)**	(186)	**(85)**	(90)
Provision no longer required and net foreign currency movements	**(40)**	12	**(13)**	7
Balance at end of year	**77**	269	**73**	171
Other				
Balance at beginning of year	**463**	473	**97**	114
Provisions made	**344**	271	**59**	32
Payments out of provisions	**(429)**	(219)	**(58)**	(55)
Sale of controlled entities	**-**	(65)	**-**	-
Provision no longer required and net foreign currency movements	**(23)**	3	**(9)**	6
Balance at end of year	**355**	463	**89**	97

Other provisions include provisions for legal and other business claims, provisions for indemnities granted for controlled entities sold, provisions for redemption of National Gold Rewards points and other smaller items.

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m

30 Bonds, notes and subordinated debt

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Medium-term notes	**52,156**	45,745	**46,901**	41,579
Other senior notes	**16,962**	8,419	**3,855**	4,012
Subordinated medium-term notes	**11,648**	10,556	**10,641**	9,943
Other subordinated notes	**298**	310	**-**	-
Total bonds, notes and subordinated debt	**81,064**	65,030	**61,397**	55,534
Net discounts	**(81)**	(24)	**(84)**	(21)
Total net bonds, notes and subordinated debt	**80,983**	65,006	**61,313**	55,513

Medium-term notes

The Group operates a number of medium-term note programs:

- under the Euro medium-term note program of the Company, notes may be issued up to an aggregate amount of US$25,000 million for terms of three months or more. Under this program, $5,023 million (2006: $6,836 million) fixed rate notes maturing between 0 to 5 years with fixed rates between 0.59% - 6.00% (2006: 0.22% - 6.55%), $107 million (2006: $302 million) fixed rate notes maturing greater than 5 years with fixed rates between 1.00% - 4.70% (2006: 1.00% - 4.70%), $4,795 million (2006: $7,993 million) floating rate notes maturing between 0 to 5 years and $nil (2006: $38 million) floating rate notes maturing greater than 5 years are outstanding. No further issues are envisaged under this program as it has been replaced by the Global medium-term note program which permits the Company, Clydesdale Bank PLC or BNZ International Funding Limited to issue notes;
- under the debt issuance program of the Company, the aggregate issue amount is not limited. Under this program, $2,666 million (2006: $2,444 million) fixed rate notes maturing between 0 to 5 years with fixed rates between 5.50% - 6.25% (2006: 5.50% - 6.25%) and $4,426 million (2006: $4,830 million) floating rate notes maturing between 0 to 5 years are outstanding;
- under the Global medium-term note program of the Company, Clydesdale Bank PLC, and BNZ International Funding Limited notes may be issued up to an aggregate amount of US$75,000 million. Under this program, $7,121 million (2006: $3,194 million) fixed rate notes maturing between 0 to 5 years with fixed rates between 0.01% - 7.40% (2006: 0.10% - 7.40%), $635 million (2006: $497 million) fixed rate notes maturing greater than 5 years with fixed rates between 1.93% - 6.25% (2006: 2.26% - 6.02%), $26,271 million (2006: $18,860 million) floating rate notes maturing between 0 to 5 years and $51 million (2006: $108 million) floating rate notes maturing greater than 5 years are outstanding; and
- the Group has conducted a number of stand-alone medium term note issues: $249 million (2006: $nil) fixed rate notes maturing between 0 to 5 years with a fixed rate of 1.80% and $812 million (2006: $643 million) floating rate notes maturing between 0 to 5 years.

The Group has designated certain debt issues as being carried at fair value, which are included within other financial liabilities at fair value on the balance sheet, refer to note 25 for further information. At September 30, 2007, these debt issues totalling $5,508 million (2006: $3,615 million) have been issued under the Global medium-term note program by Clydesdale Bank PLC and BNZ International Funding Limited.

Other senior notes

The Group issued a number of other senior notes under stand-alone issues or programs:

- under the Extendible note program of the company, notes may be issued up to an aggregate amount of US$10,000 million. Under this program, $3,855 million (2006: $4,012 million) maturing between 0 to 5 years including $3,401 million (2006: $nil) not being extended by investors;
- National RMBS Trust mortgage backed floating rate notes of $1,661 million (2006: $1,661 million) maturing up to 2015;
- National RMBS Trust mortgage backed floating rate notes of $3,967 million (2006: $2,407 million) maturing up to 2037;
- Medfin Trust lease backed floating rate notes of $173 million (2006: $319 million) maturing between 2009 and 2012;
- TSL Trust floating rate notes of $20 million (2006: $20 million);
- under the National Wealth Management Holdings Limited medium-term note program, $149 million (2006: $nil) fixed rate note maturing in 2011 with fixed rate of 6.50% and $299 million (2006: $nil) floating rate notes maturing between 2010 and 2011; and
- Clydesdale RMBS Trust floating rate notes of $6,838 million (2006: $nil) maturing up to 2054.

Subordinated notes

Certain notes are subordinated in right of payment to the claims of depositors and all other creditors of the Company. Subordinated notes with an original maturity of at least five years constitute Tier 2 capital as defined by APRA for capital adequacy purposes.

30 Bonds, notes and subordinated debt (continued)

Subordinated medium-term notes

Subordinated notes have been issued under the debt issuance program, Global medium-term note program, Euro medium-term note program and the US medium-term note program of the Group:

- under the Euro medium-term note program, $2,258 million (2006: $2,357 million) fixed rate notes maturing between 2015 and 2028 with fixed rates between 3.88% - 5.38% (2006: 3.88% - 5.38%) and $2,514 million (2006: $2,825 million) floating rate notes maturing between 2008 and 2014 are outstanding;
- under the previously registered US medium-term note program of the Company, $1,579 million (2006: $1,857 million) fixed rate notes maturing between 0 to 5 years with fixed rates between 6.60% - 8.60% (2006: 6.60% - 8.60%) are outstanding;
- under the subordinated Global medium-term note program, $1,345 million (2006: $980 million) fixed rate notes maturing 2016 with a fixed rate of 4.55% (2006: 4.55% - 4.88%) and $2,548 million (2006: $1,777 million) floating rate notes maturing between 2016 and 2017 are outstanding; and
- under the debt issuance program, $735 million (2006: $497 million) fixed rate notes maturing between 2014 and 2017 with fixed rates between 6.50% - 7.25% (2006: 6.50% - 7.50%) and $669 million (2006: $263 million) floating rate notes maturing between 2008 and 2014 are outstanding.

Other subordinated notes

The Group has conducted the following stand-alone subordinated notes issues:

- $100 million subordinated floating rate note due in 2026; and
- $200 million subordinated 6.75% fixed rate note due in 2026.

Issued bonds, notes and subordinated debt (by currency):

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
AUD	**13,640**	14,320	**9,928**	9,606
USD	**25,078**	19,429	**23,153**	19,429
EUR	**16,999**	14,469	**13,960**	13,462
GBP	**16,436**	8,877	**5,445**	5,102
Other	**8,911**	7,935	**8,911**	7,935
Total bonds, notes and subordinated debt	**81,064**	65,030	**61,397**	55,534

31 Other debt issues

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Perpetual floating rate notes	**284**	334	**284**	334
Exchangeable capital units	**-**	1,261	**-**	-
National Capital Instruments	**642**	679	**-**	-
Total other debt issues	**926**	2,274	**284**	334

Perpetual floating rate notes

On October 9, 1986, the Company issued US$250 million ($460 million) undated subordinated floating rate notes. Interest is payable semi-annually in arrears in April and October at a rate of 0.15% per annum above the arithmetic average of the rates offered by the reference banks for six month US dollar deposits in London. The notes are unsecured and have no final maturity. All or some of the notes may be redeemed at the option of the Company with the prior consent of APRA.

Exchangeable capital units

On March 19, 1997, National Australia Capital Securities (UK) PLC, a controlled entity, received funds following the issue of 40 million exchangeable capital units at US$25 each with a cumulative return of 7.88% per annum. Under the terms of the exchangeable capital units, and with the consent of APRA, the Company exercised its right to redeem any unconverted exchangeable capital units on March 26, 2007. No units remain outstanding.

National Capital Instruments

On September 29, 2006, the Group raised EUR400 million through the issue by National Capital Instruments [Euro] LLC 2 of 8,000 National Capital Instruments (Euro NCIs) at EUR50,000 each. Each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears until September 29, 2016 at a rate equal to three month EURIBOR plus a margin of 0.95% per annum. For all distribution periods ending after September 29, 2016, each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears, equal to three month EURIBOR plus a margin of 1.95% per annum. The notes are unsecured and all or some of them may be redeemed at the option of the Company with the prior consent of APRA.

32 Defined benefit pension scheme assets and liabilities

The Group maintains several defined benefit superannuation plan and pension scheme arrangements worldwide. The plans are currently in actuarial surplus. Surpluses and deficiencies depend on many diverse factors and can vary significantly over time having regard, for example, to movements in investment markets, future salary increases and changes in employment patterns. This note sets out the Group's position in relation to its defined benefit plans. Plans listed below show the position using the most recent information available.

(a) Superannuation plans

The Group's accounting policy for superannuation commitments is set out in note 1(cc). In 2007, the Group contributed to five material superannuation plans, all of which had a defined benefit section. The defined benefit section provides lump sum benefits based on years of service and a salary component determined in accordance with the specific plan. All defined benefit pension plans have been closed to new members. The defined contribution section of any plan receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

The following sets out details in respect of the defined benefit sections only.

(b) Balance sheet amounts

The amounts recognised in the Group's balance sheet are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Net asset in the balance sheet				
Fair value of plan assets	**8,049**	2,929	**3,287**	2,763
Present value of funded obligations	**(7,549)**	(2,705)	**(3,195)**	(2,591)
Net asset before adjustment for contribution tax	**500**	224	**92**	172
Adjustment for contribution tax	**19**	34	**16**	30
Net asset in the balance sheet [(1)][(2)]	**519**	258	**108**	202
Net liability in the balance sheet				
Fair value of plan assets	**-**	4,627	**-**	356
Present value of partly funded obligations	**-**	(4,940)	**-**	(388)
Net liability in the balance sheet [(1)]	**-**	(313)	**-**	(32)

(1) *The net liability is not an obligation to make payments in respect of the plans' deficits over and above the Group's annual contributions, nor does the Group have a right to benefit from any surplus in the plans.*

(2) *Included within "Other assets" (refer to note 24).*

(c) Categories of plan assets

Set out below is the fair value of the Group's defined benefit pension plan asset allocation including the percentage of the total plan assets as at September 30:

	Group				Company			
	2007		2006		**2007**		2006	
	$m	**%**	$m	%	**$m**	**%**	$m	%
Cash	**160**	**2.0**	467	6.2	**65**	**2.0**	142	4.6
Equity instruments	**4,551**	**56.5**	4,552	60.3	**1,913**	**58.2**	1,763	56.5
Debt instruments	**2,373**	**29.5**	1,815	24.0	**579**	**17.6**	663	21.2
Property	**690**	**8.6**	502	6.6	**459**	**14.0**	337	10.8
Other assets	**275**	**3.4**	220	2.9	**271**	**8.2**	214	6.9
Fair value of plan assets	**8,049**	**100.0**	7,556	100.0	**3,287**	**100.0**	3,119	100.0

The fair value of plan assets includes ordinary shares issued by the Company with a fair value of $69 million (2006: $62 million) and land and buildings occupied by the Group with a fair value of $nil (2006: $33 million).

32 Defined benefit pension scheme assets and liabilities (continued)

(d) Reconciliations

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Net asset in the balance sheet				
Reconciliation of the present value of the defined benefit obligation				
Balance at beginning of year [(1)]	**(7,645)**	(2,367)	**(2,979)**	(2,246)
Current service cost	**(222)**	(127)	**(138)**	(120)
Interest cost	**(418)**	(189)	**(194)**	(183)
Actuarial gains/(losses)	**45**	(95)	**(345)**	(97)
Benefits paid	**423**	195	**246**	180
Member contributions	**(160)**	(126)	**(160)**	(125)
Scheme merger and restructure [(2)]	**(7)**	-	**362**	-
Foreign currency translation adjustments	**435**	4	**13**	-
Balance at end of year	**(7,549)**	(2,705)	**(3,195)**	(2,591)
Reconciliation of the fair value of plan assets				
Balance at beginning of year [(1)]	**7,556**	2,466	**3,119**	2,296
Expected return on plan assets [(3)]	**500**	196	**203**	185
Actuarial gains	**414**	224	**299**	220
Contributions by Group companies	**282**	145	**169**	139
Benefits paid	**(423)**	(195)	**(246)**	(180)
Member contributions	**160**	126	**160**	125
Plan expenses	**(8)**	(7)	**(2)**	(1)
Contributions tax paid on period contributions by Group companies	**(22)**	(22)	**(22)**	(21)
Scheme merger and restructure [(2)]	**-**	-	**(385)**	-
Foreign currency translation adjustments	**(410)**	(4)	**(8)**	-
Balance at end of year	**8,049**	2,929	**3,287**	2,763

(1) *As the defined benefit pension scheme assets have moved from a net liability to a net asset position, the balance at the beginning of the 2007 year has been included in the net asset section.*

(2) *As at September 30, 2007, all the assets and liabilities of the National Australia Bank UK Retirement Benefits Plan were transferred into the Clydesdale Bank Pension Scheme.*

(3) *The actual return on plan assets for the Group was $914 million (2006: $420 million) and for the Company was $502 million (2006: $405 million).*

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Net liability in the balance sheet				
Reconciliation of the present value of the defined benefit obligation				
Balance at beginning of year [(1)]	-	(4,671)	-	(385)
Current service cost	-	(113)	-	(20)
Interest cost	-	(231)	-	(19)
Actuarial losses	-	(79)	-	(8)
Benefits paid	-	159	-	29
Past service cost	-	387	-	45
Disposals and restructures	-	(14)	-	-
Foreign currency translation adjustments	-	(378)	-	(30)
Balance at end of year	-	(4,940)	-	(388)

32 Defined benefit pension scheme assets and liabilities (continued)

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Reconciliation of the fair value of plan assets				
Balance at beginning of year [(1)]	-	3,686	-	284
Expected return on plan assets [(2)]	-	274	-	21
Actuarial gains	-	132	-	13
Contributions by Group companies	-	369	-	43
Benefits paid	-	(159)	-	(29)
Plan expenses	-	(4)	-	(1)
Foreign currency translation adjustments	-	329	-	25
Balance at end of year	-	4,627	-	356

[(1)] *As the defined benefit pension scheme assets have moved from a net liability to a net asset position, the balance at the beginning of the 2007 year has been included in the net asset section.*

[(2)] *The actual return on plan assets for the Group was $nil (2006: $406 million) and for the Company was $nil (2006: $34 million).*

For the year ended September 30, 2005, total actuarial gains for plan assets for the Group were $536 million (Company: $85 million) and total actuarial losses for plan liabilities were $643 million (Company: $98 million).

At September 30, 2005, the fair value of plan assets for the Group was $6,152 million (Company: $2,580 million) and the present value of funded obligations was $7,038 million (Company: $2,631 million).

(e) Amounts recognised in the income statement

The amounts recognised in the income statement are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Current service cost	**222**	240	**138**	140
Interest cost	**418**	420	**194**	202
Expected return on plan assets	**(500)**	(470)	**(203)**	(206)
Plan expenses	**8**	11	**2**	2
Past service cost	**-**	(387)	**-**	(45)
Contributions tax expense	**22**	22	**22**	21
Scheme merger and restructure [(1)]	**-**	-	**23**	-
Total defined benefit expense/(income)	**170**	(164)	**176**	114

[(1)] *As at September 30, 2007, all the assets and liabilities of the National Australia Bank UK Retirement Benefits Plan were transferred into the Clydesdale Bank Pension Scheme.*

AASB 119 requires that where a superannuation fund has both defined benefit and defined contribution elements, the entire fund is treated as defined benefit. The total defined benefit expense/(income) shown above reflects the treatment of the Australian funds in this manner. However, in the income statement the defined benefit expense above is split to reflect separately the component that drives the expense, and other elements of the pension arrangements. The total defined benefit expense/(income) shown above is split between superannuation cost - defined benefit plans *(refer to note 5)* (2006: pensions revenue) *(refer to note 4)* and a portion of superannuation costs - defined contribution plans *(refer to note 5)* in the income statement.

The total cumulative amount of actuarial gains recognised directly in retained profits for the Group is $544 million (2006: $100 million) and for the Company is $92 million (2006: $152 million). They are translated at the closing spot rate and have been grossed up for contribution taxes.

32 Defined benefit pension scheme assets and liabilities (continued)

(f) Principal actuarial assumptions

The investment policy and strategy for defined benefit plan assets are based on an expectation that equity securities will outperform debt securities over the long term. The composition of plan assets is broadly maintained at a ratio of approximately 2.5:1 allocation between equity and debt securities. By managing the composition of plan assets, the Group aims to minimise investment risk. The Group plans to make contributions in accordance with actuarial recommendations. The estimated contribution for the following year is $174 million. The Group's expected rate of return on defined benefit plan assets is determined by the plan assets' historical long-term investment performance, the current asset allocation and estimates of future long-term returns by asset class.

The assets of all the funded plans are held independently of the Group's assets in separate administered funds. Defined benefit schemes are valued by independent actuaries for accounting purposes using the projected unit credit method every year. The latest actuarial valuations were made by applying the following principal average actuarial assumptions at September 30 (weighted averages):

	Group	
	2007	2006
	%	%
Discount rate (per annum)	**5.7**	5.0
Expected return on plan assets (per annum)	**7.2**	6.8
Rate of compensation increase (per annum)	**4.2**	3.8
Future pension increases (per annum)	**3.1**	2.9

33 Other liabilities

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Accrued interest payable	**4,119**	3,293	**2,743**	2,434
Payables and accrued expenses	**1,385**	1,309	**665**	570
Notes in circulation	**2,670**	2,759	**-**	-
Other life insurance liabilities (1)				
Unsettled investment liabilities	**10**	13	**-**	-
Outstanding policy claims	**95**	67	**-**	-
Other	**170**	137	**-**	-
Other (2)	**7,293**	2,377	**6,600**	1,708
Total other liabilities	**15,742**	9,955	**10,008**	4,712

(1) *Life insurance statutory fund liabilities are quarantined and will be settled from the assets of the statutory funds (refer to note 1(p)).*

(2) *Included within this amount is $5,479 million within the Group (2006: $911 million asset) and $5,479 million (2006: $911 million asset) within the Company with respect to the principle repayable on cross currency swaps of the Group and the Company.*

34 Contributed equity

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Issued and paid-up share capital				
Ordinary shares, fully paid	**8,110**	7,948	**7,898**	8,440
Ordinary shares, partly paid to 25 cents [(1)]	**-**	-	**-**	-
Other contributed equity				
National Income Securities	**1,945**	1,945	**1,945**	1,945
Trust Preferred Securities	**975**	975	**-**	-
Trust Preferred Securities II	**1,014**	1,014	**1,014**	1,014
National Capital Instruments	**397**	397	**397**	397
	12,441	12,279	**11,254**	11,796

[(1)] *Ordinary shares, partly paid to 25 cents have a total value of less than $1 million.*

Reconciliation of movements in contributed equity

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Ordinary share capital				
Balance at beginning of year	**7,948**	6,894	**8,440**	7,573
Shares issued				
Dividend reinvestment plan	**-**	198	**-**	198
Executive option plan no. 2	**59**	41	**59**	41
Paying up of partly paid shares	**1**	1	**1**	1
Net gain realised on treasury shares	**32**	6	**-**	-
Share buy back	**(1,200)**	-	**(1,200)**	-
Exchangeable capital units converted	**1,335**	972	**673**	610
Purchase and vesting of treasury shares	**(70)**	(195)	**(80)**	(14)
Current period equity based payments expense vested immediately	**5**	7	**5**	7
Transfer on vesting of equity based payments	**-**	24	**-**	24
Balance at end of year	**8,110**	7,948	**7,898**	8,440

The number of ordinary shares on issue for the last two years at September 30 was as follows:

	Company 2007 No. '000	Company 2006 No. '000
Ordinary shares, fully paid		
Balance at beginning of year	**1,609,898**	1,567,188
Shares issued		
Dividend reinvestment plan [(1)]	**-**	5,918
Bonus share plan	**2,634**	3,229
Employee share plan	**1,339**	2,476
Executive option plan no. 2	**2,194**	1,639
Exchangeable capital units converted	**34,199**	29,372
Paying up of partly paid shares	**117**	76
Share buy back	**(29,315)**	-
	1,621,066	1,609,898
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	**390**	466
Paying up of partly paid shares	**(117)**	(76)
	273	390
Total number of ordinary shares on issue at end of year (including treasury shares)	**1,621,339**	1,610,288
Deduct: Treasury shares	**(27,463)**	(26,993)
Total number of ordinary shares on issue at end of year (excluding treasury shares)	**1,593,876**	1,583,295

[(1)] *During the 2007 year, dividend reinvestment plan shares were purchased on market for delivery to shareholders resulting in no issue of new shares.*

34 Contributed equity (continued)

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Treasury shares				
Balance at beginning of year	**868**	679	**14**	-
Net loss realised on treasury shares	**(32)**	(6)	**-**	-
Purchase and vesting of treasury shares	**70**	195	**80**	14
Balance at end of year	**906**	868	**94**	14

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
National Income Securities				
Balance at beginning of year	**1,945**	1,945	**1,945**	1,945
Balance at end of year	**1,945**	1,945	**1,945**	1,945

On June 29, 1999, the Company issued 20,000,000 National Income Securities (NIS) at $100 each. These securities are stapled securities, comprising one fully paid note of $100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (NIS preference share). The amount unpaid on a NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the Australian 90 day bank bill rate plus 1.25% per annum, payable quarterly in arrears.

With the prior consent of APRA, the Company may redeem each note for $100 (plus any accrued distributions) and buy back or cancel the NIS preference share stapled to the note for no consideration. NIS have no maturity date, are quoted on the ASX and on a winding-up of the Company will rank for a return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Trust Preferred Securities				
Balance at beginning of year	**975**	975	**-**	-
Balance at end of year	**975**	975	**-**	-

On September 29, 2003, the Group raised GBP400 million through the issue by National Capital Trust I of 400,000 Trust Preferred Securities at GBP1,000 each, to be used by the Company's London branch. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until December 17, 2018 equal to 5.62% per annum and, in respect of each five year period after that date, a non-cumulative distribution payable semi-annually in arrears at a rate equal to the sum of the yield to maturity of the five year benchmark UK Government bond at the start of that period plus 1.93%.

With the prior consent of APRA, the Trust Preferred Securities may be redeemed by the issuer on December 17, 2018 and on every subsequent fifth anniversary, in which case the redemption price is GBP1,000 per Trust Preferred Security plus the unpaid distributions for the last six month distribution period, and otherwise only where certain adverse tax or regulatory events have occurred subject to a ‘make-whole’ adjustment. In a winding-up of the Company, the Trust Preferred Securities will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Trust Preferred Securities II				
Balance at beginning of year	**1,014**	1,014	**1,014**	1,014
Balance at end of year	**1,014**	1,014	**1,014**	1,014

On March 23, 2005, the Group raised US$800 million through the issue by National Capital Trust II of 800,000 Trust Preferred Securities at US$1,000 each, to be used by the Company’s London branch. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until March 23, 2015 equal to 5.486%. For all distribution periods ending after March 23, 2015, each Trust Preferred Security earns a non-cumulative distribution, payable quarterly in arrears, equal to 1.5375% over three month LIBOR.

With the prior consent of APRA, the Trust Preferred Securities may be redeemed on or after March 23, 2015, in which case the redemption price is US$1,000 per Trust Preferred Security plus the distributions for the last distribution period, and otherwise only where certain adverse tax or regulatory events have occurred subject to a ‘make-whole’ adjustment. In a winding-up of the Company, the Trust Preferred Securities will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

34 Contributed equity (continued)

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
National Capital Instruments				
Balance at beginning of year	**397**	-	**397**	-
Issued during the year	**-**	397	**-**	397
Balance at end of year	**397**	397	**397**	397

On September 18, 2006, the Group raised $400 million (prior to issuance costs) through the issue by National Capital Trust III of 8,000 National Capital Instruments (Australian NCIs) at $50,000 each. Each Australian NCI earns a non-cumulative distribution, payable quarterly in arrears until September 30, 2016 at a rate equal to the bank bill rate plus a margin of 0.95% per annum. For all distribution periods ending after September 30, 2016, each Australian NCI earns a non-cumulative distribution, payable quarterly in arrears, equal to the bank bill rate plus a margin of 1.95% per annum.

With the prior consent of APRA, the Australian NCIs may be redeemed on September 30, 2016 and any subsequent distribution payment date after September 30, 2016. In a winding-up of the Company, the Australian NCIs and (if issued) the Australian NCI preference shares will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m

35 Reserves

General reserve	**866**	687	**5**	15
Asset revaluation reserve	**102**	100	**20**	18
Foreign currency translation reserve	**(860)**	(135)	**(120)**	(26)
Cash flow hedge reserve	**197**	52	**187**	58
Equity based payments reserve	**451**	227	**451**	227
General reserve for credit losses	**325**	135	**541**	363
Available for sale investments reserve	**(10)**	(2)	**(1)**	(2)
Total reserves	**1,071**	1,064	**1,083**	653

Reconciliations of movements in reserves

General reserve				
Balance at beginning of year	**687**	694	**15**	15
Transfer from/(to) retained profits	**179**	(7)	**(10)**	-
Balance at end of year	**866**	687	**5**	15
Asset revaluation reserve				
Balance at beginning of year	**100**	97	**18**	18
Revaluation of land and buildings	**18**	11	**3**	-
Tax on revaluation adjustments	**(6)**	-	**(1)**	-
Transfer to retained profits	**(10)**	(8)	**-**	-
Balance at end of year	**102**	100	**20**	18
Foreign currency translation reserve				
Balance at beginning of year	**(135)**	(504)	**(26)**	(2)
Currency translation adjustments	**(725)**	357	**(94)**	(24)
Transfer to income statement on sale of controlled entities	**-**	12	**-**	-
Balance at end of year	**(860)**	(135)	**(120)**	(26)

35 Reserves (continued)

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Cash flow hedge reserve				
Balance at beginning of year	**52**	(3)	**58**	(25)
Gains on cash flow hedging instruments	**202**	77	**184**	119
Gains transferred to income statement	**7**	2	**-**	-
Tax on cash flow hedging instruments	**(64)**	(24)	**(55)**	(36)
Balance at end of year	**197**	52	**187**	58
Equity based payments reserve				
Balance at beginning of year	**227**	110	**227**	110
Current period equity based payments expense not vested immediately	**219**	136	**219**	136
Tax on equity based payments	**5**	5	**5**	5
Transfer of vested amounts to ordinary share capital	**-**	(24)	**-**	(24)
Balance at end of year	**451**	227	**451**	227
General reserve for credit losses				
Balance at beginning of year	**135**	-	**363**	-
Transfer from retained profits	**190**	135	**178**	363
Balance at end of year	**325**	135	**541**	363
Available for sale investments reserve				
Balance at beginning of year	**(2)**	-	**(2)**	-
Net revaluation (losses)/gains	**(48)**	(2)	**1**	(2)
Impairment transferred to income statement	**40**	-	**-**	-
Balance at end of year	**(10)**	(2)	**(1)**	(2)

36 Retained profits

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Balance at beginning of year	**14,461**	12,788	**13,419**	13,281
Actuarial gains/(losses) on defined benefit plans	**444**	207	**(60)**	151
Income tax on items (taken directly to)/transferred directly from equity	**(143)**	(53)	**17**	(44)
Net profit attributable to members of the Company	**4,578**	4,392	**3,605**	3,087
Total available for appropriation	**19,340**	17,334	**16,981**	16,475
Transfer (to)/from general reserve	**(179)**	7	**10**	-
Transfer from asset revaluation reserve	**10**	8	**-**	-
Transfer to general reserve for credit losses	**(190)**	(135)	**(178)**	(363)
Dividends paid	**(2,639)**	(2,499)	**(2,685)**	(2,554)
Distributions on other equity instruments	**(283)**	(254)	**(152)**	(139)
Balance at end of year	**16,059**	14,461	**13,976**	13,419

37 Shares, performance options and performance rights

The Group's employee equity plans provide Company shares to employees of the Group, and to non-executive directors of the Company, and performance options and performance rights to senior employees of the Group. Each plan allows employees of the Group to be invited to participate in the offers under the relevant plan. Employee equity plans may be specific to employees in a particular region under the terms of the plan (e.g. NZ staff share allocation plan).

The Board determines the maximum number of shares, performance options or performance rights offered, and where required, the formula to be used in calculating the price per share. Each plan provides that the total number of shares issued in the last five years under the Company's employee share, performance option or performance right plans and the total number of outstanding performance options and performance rights granted under its plans, including any proposed offer, must not exceed 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer. The calculation does not include offers or grants made of shares, performance options or performance rights acquired as a result of an offer made to a person situated outside Australia at the time of the offer or offers which did not require disclosure under section 708 of the *Corporations Act* 2001 (Cth), otherwise than as a result of relief granted by ASIC. Under ASX Listing Rules, shares, performance options and performance rights may not be issued to Company directors under an employee incentive scheme without specific shareholder approval.

Equity-based programs for employees

Equity-based programs offered to employees form part of the Group's remuneration strategy in rewarding current and future contribution to the Group's performance and strengthening the link between value created for shareholders and rewards for employees. Generally, under the terms of each offer there is a minimum holding period and under some offers employees may be able to nominate a longer holding period. During this period, the shares are held in trust and cannot be dealt with by the employee. There may be forfeiture conditions particular to equity-based programs as described below.

Salary sacrifice shares are allocated to United Kingdom and Australian employees when they nominate to contribute a portion of their gross salary to receive Company shares. Shares are allocated monthly under the UK program, and quarterly under the Australian program, which provides an effective discount of 5% on the share purchase price, up to a maximum amount of $1,500 p.a. These shares are subject to forfeiture on serious misconduct involving dishonesty. No shares have been allocated to Australian employees before September 30, 2007, as it is a new program.

Short-term incentives (STI) may be provided under the Up-to-Target, Above-Target or Exceptional Behaviour program to employees for their individual and business performance as applicable. Australian employees may be provided their Up-to-Target STI component in the form of shares, cash or superannuation, depending on employee preference. Employees are generally required to take any Above-Target STI in Company shares for awards in excess of $500 (different limits may apply in countries outside Australia). In addition, in 2007 a new program was offered to employees in the Australian region for individuals who demonstrate exceptional behaviour. Shares for Exceptional Behaviour were allocated in November 2007. Up-to-Target shares are forfeited during the holding period if the employee is terminated for serious misconduct involving dishonesty. Above-Target shares are forfeited during the first year and Exceptional Behaviour shares during the first three years after allocation if the employee resigns or fails to pass both quality gates (behaviour and compliance) in respect of their performance review at the end of the following financial year or is terminated for serious misconduct.
For further details on STI awards granted to the executive directors of the Company, refer to the Remuneration report.

Enterprise Agreement shares are provided to designated groups of Australian employees in accordance with the provisions of the 2006 – 2009 NAB Enterprise Agreement. Eligible employees are offered a portion of the value of their Total Employment Compensation in the form of shares up to a maximum amount per employee, as set out under the Agreement. The terms of the offer include forfeiture upon resignation or summary termination before specified key dates.

Commencement and recognition shares respectively enable the buy-out of equity from previous employment, based on evidentiary information, for significant new hires or provide limited retention awards for key individuals in roles where retention is critical over a medium-term timeframe. The shares are subject to forfeiture if the participant resigns before specified key dates, or if the individual engages in a breach of the Company's Code of Conduct (or other applicable standards set from time to time) or in the event of termination for serious misconduct and may be subject to performance standards including staggered forfeiture on resignation or retirement before key milestones are achieved.

37 Shares, performance options and performance rights (continued)

General employee shares up to a value of $1,000 of Company shares is offered to each eligible employee when the Group's performance is on target, measured against a scorecard of objectives for the financial year. These shares are held in trust restricted from dealing for three years and in Australia are not subject to forfeiture. In NZ, the shares are effectively forfeited if the employee voluntarily ceases employment with the Group before the end of three years and in the UK these shares are forfeited if an employee is summarily dismissed prior to the end of three years.

Long-term incentive shares have attached performance hurdles designed to align any rewards for employees to the outcomes of the Group over a long-term timeframe and are subject to forfeiture if performance hurdles are not met. Long-term incentive shares include American depositary receipts (ADRs) allocated to US-employees in lieu of performance rights as described below. Other long-term incentive shares will be allocated to key individuals of the Group with reference to future performance hurdles subject to Board approval.

Other employee share offers include various other offers made to employees of the Group from time to time. These include the Wealth Management Ownership shares which are restricted for at least three years from allocation and forfeited for serious misconduct involving dishonesty. Under the Staff Share Ownership Plan, the Board may invite any employee to apply for a loan to acquire shares subject to the provisions of applicable laws and regulations. No loan has been made available to any employee under this scheme since 1999.

Non-executive directors' shares are provided to non-executive directors to ensure they receive at least 10% of their fees in the form of Company shares, strengthening the alignment between their interests and shareholders' interests. Non-executive directors may nominate to receive up to 40% of their fees in shares to provide flexibility in their remuneration structure. *For further details on non-executive remuneration, refer to the Remuneration report.*

Performance options and performance rights are long-term incentives which are a key mechanism for recognising executive potential and talent in the Group. The attached performance hurdles align rewards for employees to the outcomes for other shareholders over the same timeframe. *Refer to table 1 for further details.* The value of any performance options and performance rights reward (if and when any securities vest) also depends on the market value of the Company's ordinary shares at the time of exercise. Each performance option or performance right is exchanged for one fully paid ordinary share in the Company upon exercise by the employee. The exercise price for performance options is generally the market price for the Company's fully paid ordinary shares as at the date the performance option was granted, or such other relevant date determined by the Board (effective date). No exercise price is payable by the holder on exercise of performance rights. During 2007, the terms of the National Australia Bank Performance Rights Plan were amended to change the exercise price payable from $1 per tranche exercised to $nil. The change was made to simplify administration of the program after the Company requested a waiver from the ASX of the relevant ASX Listing Rules to enable an amendment to the terms of the performance rights plan without the need for shareholder approval.

Performance options and performance rights are also provided as commencement awards to enable buy-out of equity from previous employment for significant new hires. *The amount and timing of any benefits must be based on evidentiary information and are subject to the performance hurdles outlined in table 1.*

A loan may be available to executives if and when they wish to exercise their performance options, subject to the provisions of applicable laws and regulations detailed under the rules of the National Australia Bank Executive Share Option Plan No. 2.

Details of shares are set out in table 2. Details of performance options and performance rights are set out in tables 3, 4 and 5.

37 Shares, performance options and performance rights (continued)

Table 1 Terms and conditions of performance options and performance rights

<table>
<tr><th rowspan="2">Terms and conditions</th><th colspan="6">Grant dates</th></tr>
<tr><th>March 2000 – September 2001</th><th>June 2002</th><th>March 2003 – June 2004</th><th>September 2004 – December 2005</th><th>February 2006 – December 2006</th><th>February 2007 – September 2007</th></tr>
<tr><td>Securities granted</td><td colspan="2">Performance options</td><td colspan="4">Performance options and performance rights</td></tr>
<tr><td>Exercise Price</td><td colspan="2">Weighted average of prices at which ordinary Company shares were traded on the ASX during the one week up to and including the allocation date.</td><td colspan="4">For the performance options, the exercise price is generally as shown on the left, unless the allocation is a “make-up” allocation in relation to a previous grant (in which case a previous date may be used). For the performance rights the exercise price is now nil. The performance rights plan terms were amended in 2007, for administrative simplicity, to change the exercise payable from $1 per batch exercised on any particular day (following receipt of a waiver from the ASX from the relevant listing rules to amend the terms of the performance rights plan in this way).</td></tr>
<tr><td>Frequency of offers</td><td colspan="6">One major annual allocation of LTI awards, with other, smaller grants (as required) generally for executives who join the Group after the annual allocation.</td></tr>
<tr><td>Basis for determining individual allocations</td><td colspan="2">Based on seniority and assessed future value of the individual.</td><td colspan="4">Based on individual assessments of performance and potential under the Group’s annual Executive Talent Review.</td></tr>
<tr><td>Restriction period</td><td colspan="2">There is an initial restriction period of three years, when no performance testing is performed.</td><td colspan="4">The restriction period may be less than three years (but greater than two) for grants that refer to a previous performance hurdle date, e.g. grants in August 2007 had an ‘effective date’ of February 2007, and refer back to the February 2007 performance hurdle for determination of vesting. So for those grants, the restriction periods are less than three years.</td></tr>
<tr><td>Performance testing period</td><td colspan="4">The restriction period is followed by a performance period during which the performance hurdle is tested up until three months before the expiry date.</td><td colspan="2">The performance hurdle is tested on three occasions over a 24 month performance period – which ends six months before the expiry date.</td></tr>
<tr><td>Expiry date of securities</td><td colspan="2">The securities lapse on the eighth anniversary of the grant date. Vested securities may be exercised until the expiry date. Any securities that do not vest in the performance period lapse.</td><td>When an ‘effective date’ is used, and the restriction period is shorter than three years (as above), then the expiry date will also be earlier than eight years.</td><td>The securities will lapse on the fifth anniversary of the date of grant (unless an ‘effective date’ and shorter restriction period applies as above).</td><td colspan="2">The securities will lapse five years and six months after the date of grant (unless an ‘effective date’ and shorter restriction period applies as above).</td></tr>
<tr><td>Performance hurdle measures</td><td colspan="4">Total Shareholder Return (TSR) - that is, the return a shareholder receives through dividends (and any other distributions) plus capital gains over the relevant period. It is calculated on the basis that all dividends and distributions are reinvested in Company shares.</td><td>The previous TSR performance hurdle remains for the 80 most senior positions in the Group. For all other employees, for performance options the hurdle is regional ROE and Cash Earnings (RCE) growth against three to five year business plan, and for performance rights it is Group EPS growth against a financial services peer group.</td><td>The TSR performance hurdle remains for the 80 most senior positions in the Group. The performance hurdle measure for performance options and performance rights all other employees is regional Total Business Return (TBR) performance against three to five year business plan.</td></tr>
<tr><td>Reasons for the performance hurdles</td><td colspan="4">The TSR hurdle was considered most relevant for shareholders over the medium to long-term and particularly relevant for the most senior executives in the Company.</td><td colspan="2">The regional ROE, RCE and TBR performance measures are intended to significantly increase the line of sight between business performance and the performance outcomes for regional executives. This strongly supports the new regional business model.</td></tr>
<tr><td>Performance hurdle peer groups (peer group listing is available at www.nabgroup.com)</td><td colspan="3">The vesting (and exercise) of the securities is determined by growth in the Company’s TSR from the grant date, compared with that of the top 50 companies in the Standard & Poors (S&P) ASX100 by market capitalisation (excluding the Company and property trusts), determined as at the effective date of the grant.</td><td>Half the securities are tested against the top 50 companies as shown to the left. The vesting of the other half of the securities is determined by the Company’s TSR growth relative to the top 12 financial services companies in the S&P ASX200 by market capitalisation, excluding the Company, determined as at the effective date of the grant.</td><td colspan="2">For the 80 most senior positions in the Group, the TSR peer groups remain the same (as described to the immediate left).

For performance rights issued to other executives prior to February 2007, the EPS growth hurdle uses the same financial services peer group as used in the TSR hurdle.</td></tr>
</table>

37 Shares, performance options and performance rights (continued)

<table>
<tr><th rowspan="2">Terms and conditions</th><th colspan="6">Grant dates</th></tr>
<tr><th>March 2000 – September 2001</th><th>June 2002</th><th>March 2003 – June 2004</th><th>September 2004 – December 2005</th><th>February 2006 – December 2006</th><th>February 2007 – September 2007</th></tr>
<tr><td>Rationale for peer group selection</td><td colspan="3">Peer group selection attempts to approximate the types of companies that investors might choose as an alternative to investing in the Company.

The size of the peer groups is an important consideration. A larger peer group helps to reduce volatility, and means that any change in the members of the group composition (due to liquidations, etc), should have less of an impact.</td><td colspan="3">Using two peer groups in tandem prevents the possibility of all of the securities vesting if the Company performs poorly relative to other organisations in the financial services business sector.

Using the same financial services peer group for both the TSR and the EPS hurdles (as described above) maintains a link between those outcomes for senior and other executives, and ensures that the EPS hurdle is equally challenging.</td></tr>
<tr><td>Testing the performance hurdles and reasons for choosing these testing methods</td><td colspan="2">Each TSR comparison to the relevant peer group data is averaged over five trading days to prevent vesting being based on any short-term spike in TSR results.

Performance is tested daily during the performance period - although for practical reasons, performance tests are generally conducted quarterly.</td><td>The TSR comparison is averaged over 30 trading days to better ensure that any short-term spike in TSR results does not impact on vesting.</td><td>In addition to the 30-day averaging, the relevant TSR percentile must be maintained for 30 consecutive trading days (i.e. vesting only occurs if there is sustained TSR performance).</td><td colspan="2">Daily testing has been replaced with three separate hurdle tests at the 3^{rd}, 4^{th}, and 5^{th} anniversary of the grant (or ‘effective’) date. Tests use 30-day averaged TSR, and the best available RCE, ROE, TBR or EPS data for the Company (and EPS for peer organisations). Each participant’s allocation is divided into three equal tranches, with tranche 1 tested on the 3^{rd} and 4^{th} anniversaries, tranche 2 tested on the 4^{th} and 5^{th} anniversaries, and tranche 3 tested only once, on the 5^{th} anniversary date. This change minimises retesting of the performance hurdle, yet maintains employee focus on a three to five year timeframe.</td></tr>
<tr><td>Vesting of securities</td><td colspan="6">Vesting occurs to the extent that the performance hurdle is satisfied as shown below. Vesting does not occur during the restriction period (unless the maximum life of the securities has been shortened due to the end of the individual’s employment as described below).</td></tr>
<tr><td>TSR performance hurdle vesting schedule</td><td>No vesting occurs below the 25^{th} percentile of the peer group. 25% of the securities vest at the 25^{th} percentile with 1% further vesting per percentile up to the point where half of the securities would vest at the 50^{th} percentile, and then 2% further vesting per percentile up to 100% vesting at (and above) the 75^{th} percentile.</td><td colspan="2">No vesting occurs below the 50^{th} percentile performance of the peer group. Half of the securities vest at the 50^{th} percentile with 2% further vesting per percentile up to 100% vesting at (and above) the 75^{th} percentile.</td><td>No vesting occurs below the 51^{st} percentile performance of each peer group. Half of the securities vest at the 51^{st} percentile with 2% further vesting per percentile up to 100% vesting at (and above) the 76^{th} percentile.</td><td colspan="2">For the TSR and EPS hurdle tests, no vesting occurs below the 51^{st} percentile performance of each peer group. 35% of the securities vest at the 51^{st} percentile with 2.6% further vesting per percentile up to 100% vesting at (and above) the 76^{th} percentile. For the ROE/RCE hurdle test, no vesting occurs if ROE is more than 1 percentage point below plan. Once this threshold is met, 35% of the performance options vest at 90% of RCE planned growth, with 2.2% further vesting per % achievement up to 100% of the options vesting when RCE growth is at (or above) 120% of plan. For the TBR hurdle test, 50% of the securities vest at 90% of TBR planned growth, with 2.5% further vesting per % achievement up to 100% of the securities vesting when TBR growth is at (or above) 120% of plan.</td></tr>
<tr><td>Acquisition of shares</td><td colspan="6">The terms of the performance options and performance rights were altered during 2007 to allow flexibility to enable shares to be either issued or purchased on market on exercise of the securities. Previously only newly issued shares would be provided.</td></tr>
<tr><td>Lapsing of securities</td><td colspan="6">Securities will lapse if unexercised on or before their expiry date. Securities will also generally lapse 90 days after an executive ceases to be employed by the Group - unless the Board determines otherwise, or that the securities may be retained (generally, only in cases of retirement, redundancy, contract completion, death, or total and permanent disablement).</td></tr>
<tr><td>Conditions of retained securities</td><td colspan="3">In the majority of cases, retained securities will only vest upon achievement of the attached performance hurdles.

For some grants prior to March 2003 if an executive ceases employment with the Group as the result of death or total and permanent disablement, the securities may be automatically retained, and in a small number of these cases may be exercised regardless of the level of achievement of the performance hurdle.</td><td colspan="3">Retained securities will only vest upon achievement of the attached performance hurdles.

Where an individual’s employment ceases during the restriction period, the remaining life of any retained securities (as above) may be shortened. This does not apply to securities provided on commencement, or in cases of death or total and permanent disablement.</td></tr>
<tr><td>Board discretion</td><td colspan="6">The Board may allow security holders to exercise the securities regardless of the normal criteria, including if certain events occur, including a takeover offer or announcement to the holders of fully paid ordinary shares in the Company.</td></tr>
</table>

Notes to the financial statements

37 Shares, performance options and performance rights (continued)

Table 2 Employee share plans

Current employee share plans	No. of fully paid ordinary shares agreed for the year ended Sep 30, 2007	Weighted average fair value	No. of fully paid ordinary shares agreed for the year ended Sep 30, 2006	Weighted average fair value
Salary sacrifice shares [(1)]	79,138	$40.43	99,290	$34.82
Short-term incentive shares	1,761,277	$39.52	1,248,426	$33.23
Enterprise Agreement shares	142,185	$40.18	478,750	$36.20
Commencement and recognition shares	588,402	$39.82	469,005	$35.33
General employee shares	780,375	$39.81	584,030	$31.72
Long-term incentive shares	51,645	$42.59	78,655	$35.68
Other employee shares	105,545	$41.07	184,394	$34.09
Non-executive directors' shares	12,099	$40.96	17,039	$34.75

[(1)] *Shares under the UK salary sacrifice program for September 30, 2007 are anticipated to be allocated in December 2007.*

The market price of the Company's shares at September 30, 2007 was $39.71 (2006: $36.70). The volume weighted average share price during the year ended September 30, 2007 was $39.65 (2006: $34.73).

Table 3 Summary of executive share option plan and performance rights movements

	Performance options		Performance rights	
	Number	Weighted avg exercise price	Number	Weighted avg exercise price [(1)]
Equity instruments outstanding as at September 30, 2005	41,444,420	$30.57	4,634,848	-
Granted	9,266,792	$34.53	2,263,669	-
Forfeited [(2)]	1,781,078	$32.27	329,660	-
Exercised	1,639,130	$24.87	-	-
Expired	-	-	-	-
Equity instruments outstanding as at September 30, 2006	47,291,004	$31.48	6,568,857	-
Granted	13,930,382	$40.82	3,422,054	-
Forfeited [(2)]	2,158,366	$33.30	380,832	-
Exercised	2,191,361	$26.18	2,334	-
Expired	59,295	$31.29	11,065	-
Equity instruments outstanding as at September 30, 2007	56,812,364	$33.91	9,596,680	-
Equity instruments exercisable as at September 30, 2007	2,794,745	$26.07	7	-

[(1)] *During 2007, the terms of the National Australia Bank Performance Rights Plan were amended to change the exercise price payable from $1 per tranche exercised to $nil. Refer to the description of performance options and performance rights above for further details.*

[(2)] *Performance options and performance rights generally lapse after a specified number of days after cessation of employment as determined by the Board.*

37 Shares, performance options and performance rights (continued)

Table 4 Executive share option plan and performance rights outstanding

Terms and conditions	No. outstanding at Sep 30, 2007	Range of exercise prices [1]	Weighted average remaining life (months)	No. outstanding at Sep 30, 2006	Range of exercise prices [1]	Weighted average remaining life (months)
Performance options						
March 2000 - September 2001	8,473,060	$21.29 - $28.87	18	10,892,880	$21.29 - $28.87	29
June 2002	9,360,000	$36.14	33	9,796,000	$36.14	45
March 2003 - June 2004	10,370,773	$29.91 - $30.98	47	10,821,586	$29.91 - $30.98	59
September 2004 - December 2005	6,769,253	$26.59 - $34.53	27	7,090,652	$26.59 - $34.53	39
February 2006 - December 2006	8,597,048	$34.53 - $38.29	47	8,689,886	$34.53 - $37.55	59
February 2007 - September 2007	13,242,230	$39.25 - $43.43	59	-	-	-
Performance rights						
March 2003 - June 2004	2,571,350	-	47	2,659,743	-	59
September 2004 - December 2005	1,646,403	-	27	1,761,251	-	39
February 2006 - December 2006	2,127,940	-	47	2,147,503	-	59
February 2007 - September 2007	3,250,987	-	59	-	-	-

(1) *During 2007, the terms of the National Australia Bank Performance Rights Plan were amended to change the exercise price payable from $1 per tranche exercised to $nil. Refer to the description of performance options and performance rights above for further details.*

Table 5 Information on fair value calculation

The table below shows the significant assumptions used as inputs into the grant date fair valuation calculation of outstanding performance options and performance rights. In the following table, values have been presented as weighted averages, but the specific values for each grant are used for the fair value calculation. The following table shows a ‘no hurdle’ value where the grant includes performance options and performance rights which have non-market based performance hurdles attached. The outstanding performance options and performance rights are presented below based on the key terms and conditions of performance options and performance rights, as detailed in table 1.

Grant dates	Sep 2004 - Dec 2005	Feb 2006 - Dec 2006	Feb 2007 - Sep 2007
Weighted average values			
Contractual life (years)	5.0	5.5	5.5
Risk-free interest rate (per annum)	5.31%	5.23%	5.91%
Expected volatility of share price	16.30%	15.00%	15.00%
Closing share price on grant date	$29.79	$35.12	$41.00
Dividend yield (per annum)	5.75%	5.28%	4.69%
Exercise price of performance options	$29.78	$34.68	$40.90
Fair value of performance options	$2.73	$3.40	$4.12
Fair value of performance rights	$16.05	$18.36	$18.47
‘No hurdle’ value of performance options		$3.75	$5.34
‘No hurdle’ value of performance rights		$28.39	$34.04
Expected time to vesting (years)	2.81	3.99	3.99

38 Average balance sheets and related interest

The following tables set forth the major categories of interest-earning assets and interest-bearing liabilities, together with their respective interest rates earned or paid by the Group. Averages are predominantly daily averages. Interest income figures include interest income on impaired assets to the extent cash payments have been received. Amounts classified as Other International represent interest-earning assets or interest-bearing liabilities of the controlled entities and overseas branches, excluding Europe. Impaired assets are included within interest-earning assets within loans and advances.

Average assets and interest income

	2007			2006		
	Average balance $m	**Interest $m**	**Average rate % pa**	Average balance $m	Interest $m	Average rate % pa
Average interest-earning assets						
Due from other banks						
Australia	**12,974**	**723**	**5.6%**	9,561	450	4.7%
Europe	**8,364**	**444**	**5.3%**	11,298	453	4.0%
Other International	**4,218**	**252**	**6.0%**	3,036	159	5.2%
Marketable debt securities						
Australia	**12,060**	**743**	**6.2%**	9,697	540	5.6%
Europe	**6,026**	**270**	**4.5%**	7,701	238	3.1%
Other International	**6,007**	**368**	**6.1%**	7,555	377	5.0%
Loans and advances - housing						
Australia	**134,564**	**9,824**	**7.3%**	120,057	8,241	6.9%
Europe	**24,766**	**1,463**	**5.9%**	20,513	1,121	5.5%
Other International	**19,761**	**1,553**	**7.9%**	17,414	1,314	7.5%
Loans and advances - non-housing						
Australia	**71,036**	**5,460**	**7.7%**	60,369	4,450	7.4%
Europe	**48,477**	**3,589**	**7.4%**	40,608	2,838	7.0%
Other International	**23,643**	**2,276**	**9.6%**	21,759	1,995	9.2%
Acceptances						
Australia	**46,408**	**3,518**	**7.6%**	37,874	2,750	7.3%
Europe	**12**	**-**	**-**	17	-	-
Other interest-earning assets						
Australia	**3,081**	**281**	**n/a**	1,943	162	n/a
Europe	**1,911**	**100**	**n/a**	2,942	385	n/a
Other International	**3,251**	**94**	**n/a**	3,347	80	n/a
Total average interest-earning assets and interest revenue by						
Australia	**280,123**	**20,549**	**7.3%**	239,501	16,593	6.9%
Europe	**89,556**	**5,866**	**6.6%**	83,079	5,035	6.1%
Other International	**56,880**	**4,543**	**8.0%**	53,111	3,925	7.4%
Total average interest-earning assets and interest revenue	**426,559**	**30,958**	**7.3%**	375,691	25,553	6.8%
Average non-interest-earning assets						
Investments relating to life insurance business [(1)]						
Australia	**60,464**			51,318		
Other International	**40**			496		
Other assets	**34,805**			38,058		
Total average non-interest-earning assets	**95,309**			89,872		
Provision for doubtful debts						
Australia	**(1,228)**			(1,208)		
Europe	**(689)**			(589)		
Other International	**(163)**			(166)		
Total average assets	**519,788**			463,600		

38 Average balance sheets and related interest (continued)

Average liabilities and interest expense

	2007			2006		
	Average balance $m	**Interest $m**	**Average rate % pa**	Average balance $m	Interest $m	Average rate % pa
Average interest-bearing liabilities						
Term deposits and certificates of deposits						
Australia	**47,024**	**2,810**	**6.0%**	45,770	2,495	5.5%
Europe	**28,023**	**1,415**	**5.0%**	24,675	1,068	4.3%
Other International	**27,786**	**1,840**	**6.6%**	29,573	1,758	5.9%
On-demand deposits and savings (short-term) deposits						
Australia	**68,671**	**3,351**	**4.9%**	58,026	2,577	4.4%
Europe	**30,695**	**935**	**3.0%**	24,294	559	2.3%
Other International	**10,783**	**441**	**4.1%**	11,503	403	3.5%
Due to other banks and official institutions						
Australia	**14,193**	**729**	**5.1%**	11,665	533	4.6%
Europe	**14,005**	**750**	**5.4%**	14,570	661	4.5%
Other International	**11,388**	**574**	**5.0%**	10,478	492	4.7%
Short-term borrowings						
Australia	**20,208**	**1,125**	**5.6%**	21,440	947	4.4%
Europe	**115**	**6**	**5.2%**	851	45	5.3%
Other International	**8,198**	**426**	**5.2%**	6,008	276	4.6%
Long-term borrowings						
Australia	**61,735**	**3,705**	**6.0%**	47,366	2,240	4.7%
Europe	**5,749**	**340**	**5.9%**	1,684	82	4.9%
Other International	**4,889**	**288**	**5.9%**	2,447	156	6.4%
Liability on acceptances						
Australia	**34,404**	**2,164**	**6.3%**	30,694	1,758	5.7%
Europe	**6**	**-**	**-**	17	-	-
Other interest-bearing liabilities						
Australia	**110**	**11**	**n/a**	748	226	n/a
Europe	**157**	**8**	**n/a**	1,012	365	n/a
Other International	**689**	**294**	**n/a**	70	226	n/a
Total average interest-bearing liabilities and interest expense by						
Australia	**246,345**	**13,895**	**5.6%**	215,709	10,776	5.0%
Europe	**78,750**	**3,454**	**4.4%**	67,103	2,780	4.1%
Other International	**63,733**	**3,863**	**6.1%**	60,079	3,311	5.5%
Total average interest-bearing liabilities and interest expense	**388,828**	**21,212**	**5.5%**	342,891	16,867	4.9%
Average non-interest-bearing liabilities						
Deposits not bearing interest						
Australia	**7,905**			7,042		
Europe	**1,952**			3,021		
Other International	**906**			984		
Life insurance policy liabilities						
Australia	**50,310**			42,760		
Other International	**-**			337		
Other liabilities	**40,805**			40,549		
Total average non-interest-bearing liabilities	**101,878**			94,693		
Total average liabilities	**490,706**			437,584		

38 Average balance sheets and related interest (continued)

Average equity

	2007			2006		
	Average balance $m	**Interest $m**	**Average rate % pa**	Average balance $m	Interest $m	Average rate % pa
Ordinary shares	**8,201**			7,662		
Trust Preferred Securities	**975**			975		
Trust Preferred Securities II	**1,014**			1,014		
National Income Securities	**1,945**			1,945		
National Capital Instruments	**397**			13		
Contributed equity	**12,532**			11,609		
Reserves	**1,042**			659		
Retained profits	**15,200**			13,698		
Parent entity interest	**28,774**			25,966		
Minority interest in controlled entities	**308**			50		
Total average equity	**29,082**			26,016		
Total average liabilities and equity	**519,788**			463,600		

(1) Included within investments relating to life insurance business are interest-earning debt securities. The interest earned from these securities is reported in life insurance income, and has therefore been treated as non-interest earning for the purposes of this note. The assets and liabilities held in the statutory funds of the Group's Australian life insurance business are subject to the restrictions of the Life Insurance Act 1995 (Cth).

39 Interest rate risk

The following tables represent a breakdown, by repricing dates or contractual maturity, whichever is the earlier, of the Group's assets, liabilities and off-balance sheet items for the last two years at September 30. Fluctuations in interest over time can expose the Group to reduced expected earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, basis risk and other characteristics of assets and their corresponding liabilities. These mismatches are actively managed as part of the overall interest rate risk management framework which is conducted on a regional basis in accordance with Group Treasury and nabCapital policies and guidelines. In managing the structural interest rate risk, the primary objectives are to limit the extent to which net interest income could be impacted from an adverse movement in interest rates and to maximise shareholder wealth.

The tables below provide details of the earlier of repricing periods or contractual maturity of all assets and liabilities of the Group. Repricing periods/contract maturities of greater than 12 months indicate an exposure to fixed rate interest rate risk. Repricing periods/contract maturities of less than 12 months indicate an exposure to variable rate interest rate risk and may also contain fixed rate interest rate risk elements. To obtain an understanding of the effective interest earned or paid on each of the assets and liabilities set out below, refer to note 38.

Off-balance sheet items include undrawn lending commitments and the notional value of derivatives.

39 Interest rate risk (continued)

	0 to 3 month(s) $m	3 to 12 months $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Over 5 years $m	Non-interest-earning/bearing $m	Total $m	Weighted average effective interest rate % pa
	Repricing period/contract maturity									
Group – 2007										
Assets										
Cash and liquid assets	11,364	-	-	-	-	-	-	1,432	12,796	5.8%
Due from other banks	24,916	2	-	-	-	-	-	226	25,144	6.0%
Trading derivatives	-	-	-	-	-	-	-	23,019	23,019	-
Trading securities	21,267	-	-	-	-	-	-	5	21,272	6.3%
Investments - available for sale and held to maturity	6,339	16	-	-	-	-	1	5	6,361	5.7%
Investments relating to life insurance business	1,287	83	181	246	44	126	13,496	47,167	62,630	4.7%
Other financial assets at fair value	8,754	2,107	1,964	1,751	1,244	1,498	3,582	4,289	25,189	8.6%
Hedging derivatives	-	-	-	-	-	-	-	1,203	1,203	-
Loans and advances	229,317	26,167	27,535	17,210	7,265	7,072	5,636	668	320,870	7.6%
Due from customers on acceptances	49,316	-	-	-	-	-	-	6	49,322	7.6%
All other assets	-	-	-	-	-	-	-	16,828	16,828	-
Total assets	352,560	28,375	29,680	19,207	8,553	8,696	22,715	94,848	564,634	n/a
Liabilities and equity										
Due to other banks	39,586	1,479	-	243	-	1,225	-	33	42,566	5.5%
Trading derivatives	-	-	-	-	-	-	-	23,248	23,248	-
Other financial liabilities at fair value	14,764	4,302	164	450	161	524	316	1,169	21,850	6.5%
Hedging derivatives	-	-	-	-	-	-	-	536	536	-
Deposits and other borrowings	219,134	22,118	1,279	371	190	58	98	10,977	254,225	4.8%
Liability on acceptances	30,437	-	-	-	-	-	-	6	30,443	6.3%
Life policy liabilities	-	-	-	-	-	-	-	53,097	53,097	-
Bonds, notes and subordinated debt	72,226	1,028	1,722	2,076	2,756	635	540	-	80,983	5.0%
Other debt issues	926	-	-	-	-	-	-	-	926	4.7%
All other liabilities and equity	-	-	-	-	-	-	-	56,760	56,760	-
Total liabilities and equity	377,073	28,927	3,165	3,140	3,107	2,442	954	145,826	564,634	n/a
Off-balance sheet items attracting interest rate sensitivity	32,138	6,438	(13,342)	(5,243)	(8,790)	(7,808)	(3,393)	-	-	
Total interest rate repricing gap	7,625	5,886	13,173	10,824	(3,344)	(1,554)	18,368	(50,978)	-	
Cumulative interest rate repricing gap	7,625	13,511	26,684	37,508	34,164	32,610	50,978	-		

39 Interest rate risk (continued)

	Repricing period/contract maturity 0 to 3 month(s) $m	3 to 12 months $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Over 5 years $m	Non-interest-earning/bearing $m	Total $m	Weighted average effective interest rate % pa
Group – 2006										
Assets										
Cash and liquid assets	9,934	-	-	-	-	-	-	2,834	12,768	4.6%
Due from other banks	23,703	-	3	-	-	-	-	666	24,372	5.1%
Trading derivatives	-	-	-	-	-	-	-	13,384	13,384	-
Trading securities	13,740	-	-	-	-	-	-	-	13,740	6.1%
Investments - available for sale and held to maturity	2,723	28	57	-	-	23	-	50	2,881	5.0%
Investments relating to life insurance business	819	388	279	100	186	43	11,458	41,511	54,784	5.1%
Other financial assets at fair value [(1)]	8,082	1,363	1,626	1,860	966	1,150	2,899	4,177	22,123	7.4%
Hedging derivatives	-	-	-	-	-	-	-	480	480	-
Loans and advances	202,863	24,581	23,410	18,652	5,435	6,289	2,402	145	283,777	7.3%
Due from customers on acceptances	41,714	-	-	-	-	-	-	12	41,726	7.3%
All other assets	-	-	-	-	-	-	-	14,750	14,750	-
Total assets	303,578	26,360	25,375	20,612	6,587	7,505	16,759	78,009	484,785	n/a
Liabilities and equity										
Due to other banks	35,934	1,238	-	-	-	-	-	317	37,489	5.1%
Trading derivatives	-	-	-	-	-	-	-	12,008	12,008	-
Other financial liabilities at fair value	10,588	3,807	126	844	118	176	686	1,335	17,680	5.7%
Hedging derivatives	-	-	-	-	-	-	-	333	333	-
Deposits and other borrowings	193,110	15,010	1,173	270	474	85	14	12,141	222,277	4.6%
Liability on acceptances	32,102	-	-	-	-	-	-	12	32,114	5.7%
Life policy liabilities	-	-	-	-	-	-	-	46,475	46,475	-
Bonds, notes and subordinated debt	13,933	35,064	3,384	3,587	2,961	1,883	4,194	-	65,006	5.0%
Other debt issues	1,013	1,261	-	-	-	-	-	-	2,274	5.8%
All other liabilities and equity	-	-	-	-	-	-	-	49,129	49,129	-
Total liabilities and equity	286,680	56,380	4,683	4,701	3,553	2,144	4,894	121,750	484,785	n/a
Off-balance sheet items attracting interest rate sensitivity	(22,593)	31,479	(6,621)	1,798	(2,822)	(3,330)	2,089	-	-	
Total interest rate repricing gap	(5,695)	1,459	14,071	17,709	212	2,031	13,954	(43,741)	-	
Cumulative interest rate repricing gap	(5,695)	(4,236)	9,835	27,544	27,756	29,787	43,741	-		

[(1)] *The Group has revised the weighted average effective interest rate within "Other financial assets at fair value" to be calculated on a consistent basis with the 2007 financial year.*

40 Notes to the cash flow statement

(a) Reconciliation of net profit attributable to members of the Company to net cash used in operating activities

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Net profit attributable to members of the Company	**4,578**	4,392	**3,605**	3,087
(Deduct)/add: Non-cash items				
Increase in interest receivable	**(780)**	(951)	**(170)**	(703)
Increase in interest payable	**922**	1,635	**343**	1,254
Increase/(decrease) in unearned income	**476**	(101)	**299**	135
Fair value movements				
Assets, liabilities and derivatives held at fair value	**552**	1,223	**552**	1,156
Net adjustment to bid/offer valuation	**(32)**	5	**(32)**	5
(Decrease)/increase in personnel provisions	**(51)**	(87)	**(12)**	2
Decrease in other operating provisions	**(187)**	(158)	**(64)**	(101)
Equity based payments recognised in equity or reserves	**224**	143	**224**	143
Superannuation costs - defined benefit plans	**16**	(319)	**15**	(43)
Impairment losses on non-financial assets	**68**	(9)	**67**	6
Charge to provide for doubtful debts	**790**	606	**457**	262
Depreciation and amortisation expense	**527**	773	**275**	309
Revaluation losses/(gains) on exchangeable capital units	**79**	122	**(25)**	32
Movement in life insurance policyholder liabilities	**8,077**	5,872	**-**	-
Unrealised gain on investments relating to life insurance business [(1)]	**(1,495)**	(1,629)	**-**	-
Increase in other assets [(1)]	**(4,841)**	(2,893)	**(442)**	(22)
Increase/(decrease) in other liabilities	**139**	(65)	**93**	169
(Decrease)/increase in income tax payable	**(156)**	109	**(267)**	242
Decrease in deferred tax liabilities	**(80)**	(129)	**(79)**	(117)
Decrease/(increase) in deferred tax assets	**88**	214	**78**	(3)
Deduct: Operating cash flows items not included in profit	**(23,070)**	(18,832)	**(19,206)**	(15,319)
(Deduct)/add: Investing or financing cash flows included in profit				
Profit on sale of controlled entities, before income tax	**-**	(151)	**-**	-
Loss on investments classified as available for sale and held to maturity	**8**	-	**-**	-
(Profit)/loss on sale of property, plant equipment and other assets	**(32)**	(11)	**(2)**	6
Net cash used in operating activities	**(14,180)**	(10,241)	**(14,291)**	(9,500)

[(1)] *The Group has reviewed its classification in respect of cash flows on investments of the life insurance business. This has resulted in reclassifying unrealised gains and losses on investments and other assets. 2006 year comparatives have been amended to reflect this change.*

(b) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the year as shown in the cash flow statement is reconciled to the related items on the balance sheet as follows:

	Group 2007 $m	Group 2006 $m	Company 2007 $m	Company 2006 $m
Cash and liquid assets (excluding money at short call)	**12,796**	12,768	**6,190**	5,913
Treasury and other eligible bills	**424**	167	**-**	-
Due from other banks (excluding mandatory deposits with supervisory central banks)	**25,016**	24,248	**21,520**	19,509
	38,236	37,183	**27,710**	25,422
Due to other banks	**(42,566)**	(37,489)	**(36,923)**	(33,015)
Total cash and cash equivalents	**(4,330)**	(306)	**(9,213)**	(7,593)

40 Notes to the cash flow statement (continued)

(c) Non-cash financing and investing activities

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
New share issues				
Dividend reinvestment plan	**-**	198	**-**	198
Bonus share plan	**103**	107	**103**	107
Movement in assets under finance lease	**21**	22	**21**	20

(d) Sales of controlled entities

The following sales were made during the last two years to September 30, 2007:

- on July 31, 2006, the Group's Custom Fleet business was sold, proceeds on sale were $571 million (the Group's Custom Fleet business was included within the Australia Region, United Kingdom Region and New Zealand Region operating segments);
- on May 8, 2006, the MLC Asia businesses were sold, proceeds on sale were $565 million (this business was included within the Australia Region operating segment); and
- on January 31, 2006, BNZ Investment Management Limited was sold, proceeds on sale were $8 million (this business was included within the New Zealand Region operating segment).

The operating results of the controlled entities have been included in the Group’s income statement up to the date of sale. Details of the sales were as follows:

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Consideration received (cash and receivables to be discharged in cash)	-	1,144	-	-
Net assets of controlled entities sold				
Cash and liquid assets	-	60	-	-
Investments relating to life insurance business	-	822	-	-
Loans and advances	-	148	-	-
Property, plant and equipment	-	2,019	-	-
Other assets	-	294	-	-
Life policy liabilities	-	(583)	-	-
Provisions	-	(65)	-	-
Bonds, notes and subordinated debt	-	(43)	-	-
Other liabilities	-	(2,099)	-	-
Total net assets of controlled entities sold	-	553	-	-
Goodwill	-	344	-	-
Foreign currency translation reserve relating to controlled entities sold	-	12	-	-
Transaction costs on disposal of controlled entities sold (including provision and warranties recognised)	-	84	-	-
Total costs of disposal of controlled entities sold	-	993	-	-
Profit on sale of controlled entities before income tax	-	151	-	-

41 Particulars in relation to controlled entities

The following table presents the material controlled entities of the Group. Investment vehicles holding life policyholder assets are excluded from the below list.

Entity name	Ownership %	Incorporated/formed in
National Australia Bank Limited		Australia
National Equities Limited (1)	100	Australia
National Australia Group (NZ) Limited	100	New Zealand
Bank of New Zealand	100	New Zealand
BNZ International Funding Limited	100	New Zealand
BNZ Investments Limited	100	New Zealand
BNZ Branch Properties Limited	100	New Zealand
National Australia Group Europe Limited	100	England
National Europe Holdings Limited	100	England
Clydesdale Bank PLC	100	Scotland
Clydesdale Bank Asset Finance Limited	100	Scotland
Yorkshire Bank Investments Limited	100	England
Yorkshire Bank Home Loans Limited	100	England
National Australia Group Europe Services Limited	100	Scotland
National Australia Group Europe Investments Limited	100	Scotland
National Wealth Management Holdings Limited	100	Australia
National Australia Financial Management Limited	100	Australia
MLC Holdings Limited	100	Australia
MLC Lifetime Company Limited	100	Australia
MLC Investments Limited	100	Australia
MLC Limited	100	Australia
National Wealth Management International Holdings Limited	100	Australia
National Australia Insurance Services Limited	100	England
National Corporate Investment Services Limited	100	Australia
National Australia Trustees Limited	100	Australia
National Australia Group Services Limited	100	Australia
NBA Properties Limited (1)	100	Australia
National Australia Corporate Services Limited (1)	100	Australia
Nautilus Insurance Pte Limited	100	Singapore
Nautilus Insurance (Europe) Limited	100	Republic of Ireland
National Australia Finance (Asia) Limited	100	Hong Kong

(1) *These controlled entities and those listed hereunder have entered into a deed of cross guarantee (refer to note 42 for details) with the Company pursuant to ASIC Class Order 98/1418 dated August 13, 1998. The controlled entities and the Company form a closed group (a closed group is defined as a group of entities comprising a holding entity and its related wholly owned entities). Relief, therefore, was granted to these controlled entities from the Corporations Act 2001 (Cth) requirements for preparation, audit and publication of an annual financial report.*

ARDB Limited
Australian Banks' Export Re-Finance Corporation Limited
C.B.C. Holdings Limited
C.B.C. Properties Limited
NBA Leasing Pty Limited
NBA Properties (Qld) Limited
NBA Properties (Vic) Limited
VPL Securities Pty Limited

Section 323D(3) of the *Corporations Act* 2001 (Cth) requires the Company to ensure that its controlled entities have the same financial year as the Company. Pursuant to ASIC instrument 06/480 dated June 5, 2006, the Company is relieved from this requirement in respect of certain registered managed investment schemes of which MLC Investments Limited is the responsible entity. Each scheme prepares an audited financial report following its year end in accordance with its constituent document.

42 Contingent liabilities and credit commitments

The following table shows the level of the Group's contingent liabilities for the last two years as at September 30:

	Group		Company	
	Notional amount [1]		Notional amount [1]	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Contingent liabilities				
Guarantees	**2,568**	3,082	**6,451**	5,531
Standby letters of credit	**6,170**	6,338	**4,618**	5,759
Documentary letters of credit	**504**	523	**385**	397
Performance-related contingencies	**4,754**	3,614	**3,995**	2,879
Other	**153**	193	**149**	191
Total contingent liabilities [2]	**14,149**	13,750	**15,598**	14,757

[1] *The notional amount represents the maximum credit risk.*

[2] *The maximum potential amount of future payments disclosed is undiscounted and not reduced by any amounts that may be recovered under the recourse provisions that are outlined below.*

	Group		Company	
	Notional amount [1]		Notional amount [1]	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Credit-related commitments				
Outright forward purchases and forward deposits	**116**	-	**116**	-
Underwriting facilities	**21**	60	**21**	60
Binding credit commitments [1]	**132,743**	128,198	**89,690**	85,970
Total credit-related commitments	**132,880**	128,258	**89,827**	86,030

[1] *Includes the notional amount and the credit equivalent for credit derivatives where the Group has sold credit protection.*

Geographical concentrations of credit-related commitments

The following table shows the level of geographical concentrations of credit-related commitments for the last two years as at September 30:

	Group	
	2007	2006
	$m	$m
Australia	**72,328**	67,106
Europe	**39,118**	38,922
New Zealand	**12,547**	12,046
United States	**8,180**	9,817
Asia	**707**	367
Total	**132,880**	128,258

Investment commitments as at the reporting date are set out below:

	Group	
	2007	2006
	$m	$m
Investment commitments		
Statutory funds [1]	**1,073**	1,040
Total investment commitments	**1,073**	1,040

[1] *In the normal course of business of the Group's life insurance business statutory funds, various types of investment contracts are entered into that give rise to contingent or future obligations.*

42 Contingent liabilities and credit commitments (continued)

Other commitments contracted for as at the reporting date are set out below:

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Information technology and telecommunication services				
Less than one year	**95**	140	**5**	113
One to five year(s)	**136**	20	**8**	-
Total information technology and telecommunication services	**231**	160	**13**	113
Operational, property and support services				
Less than one year	**106**	204	**36**	114
One to five year(s)	**247**	181	**131**	166
Greater than five years	**20**	-	**20**	-
Total operational, property and support services	**373**	385	**187**	280

(a) Contingent liabilities

The Group's exposure to potential loss in the event of non-performance by a counterparty to a financial instrument for commitments to extend credit, letters of credit and financial guarantees written, is represented by the contractual notional principal amount of those instruments. The Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets.

(i) Guarantees

The Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the rating of the Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances. Guarantees are also provided on behalf of counterparties as performance bonds and ongoing obligations to government entities. The Group has four principal types of guarantees:

- bank guarantees – a financial guarantee that is an agreement by which the Group agrees to pay an amount of money on demand on behalf of a customer to a third party during the life of the guarantee;
- standby letters of credit – an obligation of the Group on behalf of a customer to make payment to a third party in the event that the customer fails to meet an outstanding financial obligation;
- documentary letters of credit – a guarantee that is established to indemnify exporters and importers in their trade transactions where the Group agrees to make certain trade payments on behalf of a specified customer under specific conditions; and
- performance-related contingencies – a guarantee given by the Group that undertakes to pay a sum of money to a third party where the customer fails to carry out certain terms and conditions of a contract.

The credit risk involved in issuing letters of credit and financial guarantees is essentially the same as that involved in extending loan facilities to customers. Apart from the normal documentation for a facility of this type, the customer must also provide the Group with a written indemnity, undertaking that, in the event the Group is called upon to pay, the Group will be fully reimbursed by the customer.

Fees in relation to guarantees are collected over the life of the contract. Revenue is recognised on an accruals basis.

(ii) Clearing and settlement obligations

The Company is subject to a commitment in accordance with the rules governing clearing and settlement arrangements contained in the Australian Payments Clearing Association Limited Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Consumer Electronic Clearing System and the High Value Clearing System which could result in a credit risk exposure and loss in the event of a failure to settle by a member institution. The Company also has a commitment in accordance with the Austraclear System Regulations and the Continuous Linked Settlement Bank Rules to participate in loss-sharing arrangements in the event that another financial institution fails to settle.

(iii) Inter-bank deposit agreement

The Company is a party to an inter-bank deposit agreement between the major Australian banks. Each participant, including the Company, has a maximum commitment to provide a deposit of an amount of up to $2,000 million, for a period of 30 days, to any other participant experiencing liquidity problems. Repayment of the deposit by the recipient bank may be by cash or by transfer of mortgages securing eligible housing loans to the value of the deposit. The agreement is certified by APRA as an industry support contract under section 11CB of the *Banking Act* 1959 (Cth).

42 Contingent liabilities and credit commitments (continued)

(iv) Legal proceedings

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business.

The Company received a document request from the US SEC Division of Enforcement in February 2004 as part of an investigation into certain Australian registrants and public accounting firms. The SEC Division of Enforcement has requested documents and information and is investigating issues that have occurred since at least as early as October 1, 2000 (the commencement of the 2001 year) regarding independence of the Company's former auditor, KPMG, and regarding the Company's accounting and internal controls, including the unauthorised foreign currency options trading matter and HomeSide US.

During the 2003 and prior financial years, KPMG employees performed non-audit services for the Group, including loan reviews in the Credit Restructuring unit in Australia and in the tax and internal audit functions, while on secondment to entities within the Group. KPMG was the external auditor of the Company until January 31, 2005. All KPMG internal audit secondments were terminated by the end of the 2002 year and all KPMG secondments ceased from the end of the 2003 year. KPMG has also informed the Company and the SEC that during the 2004 year, 12 KPMG professionals maintained savings and checking accounts and three had loans with the Company that are not permitted by the SEC's auditor independence rules. While KPMG has reported that some of these circumstances were potential violations of the SEC independence rules, KPMG has advised the Company that it does not consider its independence to have been compromised. The SEC is also reviewing services of KPMG relating to potential or actual borrowers from the Company, such as acting as receiver and manager, investigating accountant, monitoring consultant and an agent for a mortgagee in possession, and legal services provided to the Group by a UK law firm formerly affiliated with KPMG.

The SEC Division of Enforcement has also requested information about the Company's investment in HomeSide US, which resulted in the recognition of a $1,323 million (after tax) impairment loss on mortgage servicing rights (MSRs), $1,436 million provision for changes in valuation assumptions to reduce the carrying value of the MSRs to an estimated market sale value and a $858 million goodwill write down in 2001. The Company has also provided to the SEC information about the Company's unauthorised foreign currency options trading announced in January 2004. In the investigation of these losses, it was found that, in the Institutional Markets & Services division (now nabCapital), there was inadequate supervision and failures in control procedures and risk management systems. Following a review conducted by APRA, the Company's prudential regulator, the Company has taken steps to improve its control systems. The issues identified in the APRA review have either been fully remediated or alternative controls have been reviewed and relied upon for financial reporting. A key outcome was the reopening in May 2005 of the foreign currency options trading desk.

The Company has cooperated fully with the SEC regarding this matter. While the Company cannot predict action the SEC may take in response to its investigation, it has authority to impose or negotiate a broad range of possible sanctions for any breaches. These include requiring the Company to make a monetary payment, entry of a cease-and-desist order or injunction requiring the Company to cease future violations of the US securities laws or face substantial monetary sanctions, and requiring the Company to improve the Company's internal controls or policies, change or curtail the Company's business, change the Company's management or take other steps, such as engaging an independent consultant to evaluate and report on the Company's controls, policies or other matters and the Company's progress towards improvement within mandated timeframes.

In September 2006, the UK Office of Fair Trading (OFT) announced a formal investigation into the fairness of bank current accounts charges. The responses received from the banking industry generally challenged this belief, but the OFT announced a joint 'fact finding' exercise with the British Bankers' Association to review the legal basis for banking charges. Due to the legal uncertainty and as a result of increasing customer claims, the OFT agreed to a test case involving seven banks and one building society in the UK to which Clydesdale Bank is a party. Proceedings were issued on July 27, 2007 in the High Court in England and Wales, and a trial date has been set for January 2008. The timing for the outcome of the legal proceedings is uncertain; however, Clydesdale considers its case to be strong and the bank account charges to be both fair and legally enforceable. Clydesdale is however, unable to predict with any accuracy the outcome of the legal action and is thus unable to reliably estimate any potential liability that may arise. No recognition has therefore been made, contingent or actual, within the financial statements for an adverse outcome.

The Group does not consider that the outcome of any proceedings, either individually or in aggregate, is likely to have a material effect on its financial position. Where appropriate, provisions have been made.

There are contingent liabilities in respect of claims, potential claims and court proceedings against entities of the Group. The aggregate of potential liability in respect thereof cannot be accurately assessed.

(v) Contingent liability – amended assessments from the Australian Taxation Office – exchangeable capital units capital raising

The Group announced in February 2004 and May 2005 that it had received amended assessments from the Australian Taxation Office (ATO) which seek to disallow interest deductions on exchangeable capital units (ExCaps) for the tax years 1997 to 2003 and deductions for certain issue costs for the years 1998 to 2001. The ATO assessments are for $298 million of primary tax and interest and penalties of $254 million (after tax), a total of $552 million (after tax). As previously advised, should the ATO also disallow issue costs claimed in 2002 and 2003, the further primary tax assessed would be approximately $2 million. Interest and penalties may also be imposed.

42 Contingent liabilities and credit commitments (continued)

As previously announced in May 2007, the ATO has also issued amended assessments to disallow deductions claimed for the payment of management fees associated with the ExCaps for years 1997 to 2003. These additional ATO assessments are for $9 million of primary tax and interest and penalties of $7 million (after tax), a total of $16 million (after tax).

The ATO has advised the Group that it has reviewed the amount of interest imposed and as a result of this review it has decided to remit interest by applying reduced rates for all years, except the 2004 year.

In accordance with ATO practice on disputed assessments, the Group has paid 50% of the amounts owing under the amended assessments, a total of $307 million. These payments have been recognised as an asset by the Group in its accounts, included within other assets, on the basis that the Group expects recovery of the amount paid to the ATO. Interest may accrue on the unpaid disputed amounts. The Group has not tax-effected interest paid on the ExCaps after October 1, 2003 whilst the tax treatment is in dispute. As a result, an additional $7 million (2006: $20 million) has been recognised in determining income tax expense for the 2007 year.

The Group disputes the amended assessments for the ExCaps and intends to pursue all necessary avenues of objection and appeal. Objections against the amended assessments have been lodged but as yet have not been determined. No provision has been raised for this matter. The Group continues to consider opportunities to resolve this matter.

(vi) Contingent liability – amended assessments from the New Zealand Inland Revenue Department – structured finance transactions

The New Zealand Inland Revenue Department (IRD) is carrying out a review of certain structured finance transactions in the banking industry.

As part of this review, subsidiaries of the Group have received amended tax assessments for the 1998 to 2002 years from the IRD with respect to certain structured finance transactions. The amended assessments are for income tax of approximately NZ$256 million. Interest will be payable on this amount and the possible application of penalties has yet to be considered by the IRD.

The New Zealand Government introduced new legislation, effective July 1, 2005, which addresses their concerns with banks entering into these transactions. All of the structured finance transactions of the Group’s subsidiaries that are the subject of the IRD’s review were terminated by that date.

If the IRD issues amended assessments for all transactions for periods up to June 30, 2005, the maximum sum of primary tax, which the IRD might claim for all years is approximately NZ$416 million. In addition, as at September 30, 2007, interest of NZ$183 million (net of tax) will be payable.

The Group is confident that its position in relation to the application of the taxation law is correct and it is disputing the IRD’s position with respect of these transactions. The Group has obtained legal opinions that confirm that the transactions complied with New Zealand tax law. The transactions are similar to transactions undertaken by other New Zealand banks. The Group has commenced legal proceedings to challenge the IRD’s assessments.

The financial effect of the unpaid balance of the amounts owing under the amended assessments has not been brought to account in the financial statements for the year ended September 30, 2007.

(vii) Contingent liability – Wealth Management reinsurance

The ATO continues its review of a reinsurance contract entered into by the Australian Wealth Management business in the 1998 tax year and amended in the 2000 tax year. The ATO previously expressed the view that expenditure incurred under the reinsurance contract was not deductible under certain technical provisions of the tax law.

In August 2007, the ATO concluded its review of this matter and issued amended assessments to the Wealth Management subsidiaries that were parties to the reinsurance contract.

The ATO assessments were for $54 million of primary tax and interest and penalties of $16 million (after tax), a total of $70 million (after tax).

In accordance with ATO practice on disputed assessments, the Group has paid 50% of the amounts owing under the amended assessments. This payment has been recognised as an asset by the Group in its accounts as at September 30, 2007 on the basis that the Group expects full recovery of the amount paid to the ATO. Interest may accrue on the unpaid disputed amount. No provision has been raised for this matter.

Objections have been lodged disputing the ATO's amended assessments. Should the objections be determined unfavourably by the ATO, the Group intends to pursue all necessary avenues of appeal.

42 Contingent liabilities and credit commitments (continued)

(b) Credit-related commitments

Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements. The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include:

- a floating charge over all assets and undertakings of an entity, including uncalled capital and called but unpaid capital;
- specific or inter-locking guarantees;
- specific charges over defined assets of the counterparty; and
- loan agreements which include affirmative and negative covenants and in some instances guarantees of counterparty obligations.

(c) Parent entity guarantees and undertakings

Excluded from the Group amounts disclosed above are the following guarantees and undertakings to entities in the Group:

- commercial paper issued by National Australia Funding (Delaware), Inc. totalling $3,354 million (2006: $2,147 million) is guaranteed by the Company;
- from time to time, the Company provides letters to the UK Financial Services Authority in relation to its controlled entity Clydesdale Bank PLC. The letters acknowledge that the Company will make up any regulatory capital deficiency in Clydesdale Bank PLC as a result of losses on exposures to certain designated parties. As at September 30, 2007, the only such letter related to facilities provided by Clydesdale Bank PLC to its wholly owned controlled entity Clydesdale Bank Asset Finance Limited;
- the Company will indemnify each customer of National Nominees Limited against any loss suffered by reason of National Nominees Limited failing to perform any obligation undertaken by it to a customer;
- bonds issued by National Australia Finance (Hong Kong) PLC totalling GBP250 million are guaranteed by the Company;
- the Company has agreed to provide a guarantee and indemnity with respect to the obligations of NBA Properties (Vic) Limited under the leases and car park licences of the Group's premises at 800 and 808 Bourke Street, Docklands, Melbourne;
- National Australia Bank Limited (NABL) and National Wealth Management Services Limited (NWMSL) have been granted licences by the Safety, Rehabilitation and Compensation Commission (the Commission) to operate as self-insurers under the Commonwealth Government Comcare Scheme. Under these arrangements, NABL has agreed that in the event it is proposed that NWMSL no longer continue as a wholly owned subsidiary of NABL, NABL will provide the Commission with a guarantee of the then current workers' compensation liabilities of NWMSL;
- the Company has provided a guarantee of the obligations of National Australia Group Services Limited (a wholly owned controlled entity) pursuant to the sale agreement relating to the sale of the Custom Fleet business. In certain limited circumstances, the Company may also be required to guarantee the obligations of National Europe Holdings Limited (a wholly owned controlled entity) under that sale agreement. The primary ongoing obligations of these companies under the sale agreement relate to warranties and indemnities to the buyers consistent with agreements of this nature; and
- pursuant to ASIC Class Order 98/1418 dated August 13, 1998, relief was granted to certain controlled entities *(refer to note 41, footnote (1))* from the *Corporations Act* 2001 (Cth) requirements for preparation, audit and publication of annual financial reports. It is a condition of the Class Order that the Company and each of the controlled entities enter into a deed of cross guarantee. The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding-up of any of the controlled entities under certain provisions of the *Corporations Act* 2001 (Cth). If a winding-up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up. The table below presents consolidated pro forma income statements and balance sheets for the Company and controlled entities which are party to the deed, after eliminating all transactions between parties to the deed, which is known as a closed group.

It is not envisaged that any material unrecorded loss is likely to arise from any of the transactions described in this note.

42 Contingent liabilities and credit commitments (continued)

Closed group

	2007 $m	2006 $m
Pro forma income statement		
For the year ended September 30		
Profit before income tax expense	**4,636**	4,150
Income tax expense	**(1,041)**	(1,030)
Net profit	**3,595**	3,120
Pro forma balance sheet		
As at September 30		
Assets		
Cash and liquid assets	**6,252**	5,996
Due from other banks	**21,570**	19,565
Trading derivatives	**20,701**	12,311
Trading securities	**19,683**	12,873
Investments - available for sale	**259**	965
Investments - held to maturity	**950**	883
Other financial assets at fair value	**914**	780
Hedging derivatives	**687**	383
Loans and advances	**234,165**	199,515
Due from customers on acceptances	**49,316**	41,714
Property, plant and equipment	**1,222**	1,009
Investments in controlled entities and joint venture entities	**15,823**	15,901
Goodwill and other intangible assets	**443**	336
Deferred tax assets	**929**	1,059
Other assets	**25,654**	30,833
Total assets	**398,568**	344,123
Liabilities		
Due to other banks	**36,923**	33,015
Trading derivatives	**20,873**	10,998
Other financial liabilities at fair value	**3,748**	3,509
Hedging derivatives	**401**	179
Deposits and other borrowings	**185,909**	157,664
Liability on acceptances	**30,438**	32,102
Current tax liabilities	**215**	526
Provisions	**961**	1,045
Bonds, notes and subordinated debt	**61,313**	55,513
Other debt issues	**283**	334
Defined benefit pension scheme liabilities	**-**	32
Deferred tax liabilities	**341**	420
Other liabilities	**30,602**	22,632
Total liabilities	**372,007**	317,969
Net assets	**26,561**	26,154
Equity		
Contributed equity	**11,254**	11,796
Reserves	**1,021**	618
Retained profits	**14,286**	13,740
Total equity (parent entity interest)	**26,561**	26,154
Total equity	**26,561**	26,154

43 Financial risk management

Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances, but the Group also enters into guarantees and other commitments such as letters of credit and performance and other bonds.

The Group also trades in financial instruments where it takes positions in exchange traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in bonds in currency, interest rate and commodity prices. The Board places trading limits on the level of exposure that can be taken. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counter-balancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

(a) Fair value hedges

The Group hedges part of its existing interest rate and foreign currency risk resulting from any potential decrease in the fair value of fixed rate assets or increase in fair value of fixed rate liabilities attributable to both interest rate and foreign currency risk denominated both in local and foreign currencies using interest rate, cross currency interest rate and cross currency swaps. The net fair value of these swaps is disclosed in note 11.

(b) Cash flow hedges

The Group hedges a portion of the variability in future cash flows attributable to the interest rate risk of variable interest rate assets and liabilities, using interest rate swaps, forward rate agreements and futures contracts.

There were no transactions for which cash flow hedge accounting had to be ceased in 2007 as a result of the hedge accounting criteria no longer being met.

(c) Hedges of net investments in foreign operations

At September 30, 2007, a borrowing of GBP675 million (2006: GBP675 million) has been designated as a hedge of a net investment in a subsidiary with a GBP functional currency. The hedge has been designated to protect against the Group's exposure to foreign exchange risk on this investment.

Any gains or losses on the translation of this borrowing are transferred to equity to offset any gains or losses on translation of the net investment in the subsidiary.

Credit risk

Credit is defined as any transaction that creates an actual or potential obligation for a borrower to pay the Group. Credit risk is the potential that a borrower will fail to meet its obligations to the Group in accordance with agreed terms.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

(a) Derivatives

The Group maintains control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

(b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a counterparty failed to meet its obligations in accordance with agreed terms, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

43 Financial risk management (continued)

(c) Credit-related commitments

Credit-related commitments are facilities where the Group is under a legal obligation to extend credit unless some event occurs, which gives the Group the right, in terms of the commitment letter of offer or other documentation to withdraw or suspend the facilities. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties – carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct unsecured borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum exposure to credit risk

The Group's credit exposure has been determined in accordance with APRA capital adequacy guidelines. The Group has comprehensive credit risk management policies that restrict the level of exposure to any one borrower or group of borrowers, industries, countries and asset class. This credit equivalent is derived by taking into account the residual maturity of each instrument and then adding the fair value of all contracts which have a positive fair value. Futures and option contracts which are traded on a recognised exchange and which are subject to margin payments are considered to have no credit exposure. Internal credit assessment applies a conservative methodology to determine potential counterparty exposure. Unless otherwise noted, the amount that best represents the maximum credit exposure at reporting date is the carrying value of the financial asset.

Market risk

The Group takes on exposure to market risks. Market risk arises from open positions in interest rate, currency, commodity, credit spread and equity products, all of which are exposed to general and specific market movements. The Group applies a Value at Risk (VaR) methodology to estimate the market risk of positions held and the losses expected, based upon a number of statistical assumptions for various changes in market conditions. The Board sets limits on the VaR that may be accepted, which is monitored on a daily basis.

Market risk of derivative financial instruments held or issued is the risk that the value of derivatives will be adversely affected by changes in the market value of the underlying instrument, reference rate or index. Not all risks associated with intermediation can be effectively hedged. The residual market exposures together with trading positions are managed within established limits approved by the Board. A unit independent of the trading activities monitors compliance within delegated limits on a daily basis.

Industry concentration of assets

The following table shows the level of industry concentrations of assets as at September 30:

	Loans at fair value		Loans at amortised cost		Provision for doubtful debts		Acceptances	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Government and public authorities	**699**	649	**905**	871	**-**	2	**17**	24
Agriculture, forestry, fishing and mining	**3,905**	2,979	**11,057**	11,084	**98**	95	**5,447**	4,411
Financial, investment and insurance	**1,358**	1,723	**17,650**	9,610	**63**	84	**3,978**	3,320
Real estate - construction	**79**	52	**2,824**	3,303	**37**	30	**950**	1,172
Manufacturing	**1,863**	1,212	**7,853**	6,901	**192**	174	**3,079**	2,927
Instalment loans to individuals and other personal lending (including credit cards)	**328**	382	**15,247**	17,083	**399**	357	**206**	256
Real estate - mortgage	**-**	-	**185,809**	171,762	**91**	52	**-**	-
Asset and lease financing	**-**	-	**17,756**	16,953	**153**	101	**-**	-
Other commercial and industrial	**11,332**	9,777	**66,664**	50,622	**1,074**	1,127	**35,645**	29,616
Total	**19,564**	16,774	**325,765**	288,189	**2,107**	2,022	**49,322**	41,726

43 Financial risk management (continued)

Concentrations of assets and liabilities

	Australia		Europe		New Zealand		Other	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Assets								
Cash and liquid assets	**5,318**	3,113	**5,080**	7,953	**183**	297	**2,215**	1,405
Due from other banks	**14,769**	10,413	**7,712**	9,685	**1,647**	3,258	**1,016**	1,016
Trading derivatives	**11,440**	5,748	**7,994**	5,562	**2,073**	1,066	**1,512**	1,008
Trading securities	**18,406**	10,608	**922**	2,109	**1,581**	861	**363**	162
Investments - available for sale	**261**	133	**921**	527	**-**	-	**163**	833
Investments - held to maturity	**1,064**	468	**3,751**	527	**-**	48	**201**	345
Investments relating to life insurance business	**62,594**	54,740	**-**	-	**36**	44	**-**	-
Other financial assets at fair value	**4,232**	4,177	**6,307**	5,331	**14,209**	12,035	**441**	580
Hedging derivatives	**687**	378	**289**	36	**227**	66	**-**	-
Loans and advances	**218,939**	191,134	**69,653**	63,503	**27,175**	25,407	**5,103**	3,733
Due from customers on acceptances	**49,316**	41,714	**6**	12	**-**	-	**-**	-
Property, plant and equipment	**1,214**	1,016	**669**	788	**70**	65	**5**	8
Goodwill and other intangible assets	**4,181**	4,074	**876**	822	**311**	308	**-**	(1)
Deferred tax assets	**962**	1,021	**162**	453	**102**	97	**40**	60
Other assets	**4,495**	640	**3,064**	4,831	**416**	465	**261**	103
Total assets	**397,878**	329,377	**107,406**	102,139	**48,030**	44,017	**11,320**	9,252
Liabilities								
Due to other banks	**17,227**	16,382	**16,954**	12,894	**456**	1,027	**7,929**	7,186
Trading derivatives	**11,144**	4,003	**8,728**	6,015	**2,206**	1,105	**1,170**	885
Other financial liabilities at fair value	**1,165**	1,372	**2,927**	2,410	**17,297**	13,328	**461**	570
Hedging derivatives	**349**	165	**106**	53	**81**	115	**-**	-
Deposits and other borrowings	**159,920**	130,710	**56,561**	58,807	**20,359**	19,595	**17,385**	13,165
Liability on acceptances	**30,437**	32,102	**6**	12	**-**	-	**-**	-
Life policy liabilities	**53,097**	46,475	**-**	-	**-**	-	**-**	-
Current tax liabilities	**212**	469	**31**	41	**-**	-	**11**	22
Provisions	**1,196**	1,291	**73**	242	**50**	33	**40**	52
Bonds, notes and subordinated debt	**67,874**	60,226	**12,530**	4,138	**-**	-	**579**	642
Other debt issues	**283**	891	**-**	704	**-**	-	**643**	679
Defined benefit pension scheme liabilities	**-**	-	**-**	313	**-**	-	**-**	-
Managed fund units on issue	**8,116**	7,249	**-**	-	**-**	-	**-**	-
Deferred tax liabilities	**1,042**	1,089	**318**	338	**45**	59	**(1)**	4
Other liabilities	**3,616**	4,508	**6,995**	4,638	**909**	524	**4,222**	285
Total liabilities	**355,678**	306,932	**105,229**	90,605	**41,403**	35,786	**32,439**	23,490

Value at risk for derivatives held or issued for trading purposes

The use of derivatives for trading purposes within the Group is subject to disciplines prescribed in the Traded Market Risk Policy and the nabCapital policies. Traded market risk is primarily managed and controlled using VaR which is a standard measure used in the industry.

VaR is an estimate of potential losses resulting from shifts in interest rates, currency exchange rates, traded credit spreads, option volatility, equity prices and commodity prices. The estimate is calculated on an entire trading portfolio basis, including both physical and derivative positions.

VaR is predominantly calculated using historical simulation. This method involves multiple revaluations of the trading books using two years of historical pricing shifts. The pricing data is rolled monthly so as to have the most recent two year history of prices. The results are ranked and the loss at the 99th percentile confidence interval identified. The calculation and rate shifts used assume a one day holding period for all positions.

The Group employs other risk measures to supplement VaR, with appropriate limits to manage and control risks, and communicate the specific nature of market exposures to executive management, the Risk Committee of the Board and ultimately the Board. These supplementary measures include stress testing, stop loss, position and sensitivity limits.

43 Financial risk management (continued)

The following table shows the Group VaR for the trading portfolio, including both physical and derivative positions:

Value at risk for physical and derivative positions

	Average value during reporting period		Minimum value during reporting period [1]		Maximum value during reporting period [1]	
	2007	2006	**2007**	2006	**2007**	2006
	$m	$m	**$m**	$m	**$m**	$m
Value at risk at a 99% confidence level						
Foreign exchange risk	**2**	1	**1**	1	**4**	4
Interest rate risk	**9**	9	**5**	5	**13**	14
Volatility risk	**1**	1	**-**	1	**2**	1
Commodities risk	**1**	1	**-**	-	**2**	2
Credit risk	**3**	1	**2**	1	**10**	4
Diversification benefit	**(4)**	(3)	**(1)**	(1)	**(13)**	(10)
Total value at risk for physical and derivative positions [1]	**12**	10	**7**	7	**18**	15

[1] *Value at risk is measured individually for foreign exchange risk, interest rate risk, volatility risk, commodities risk and credit risk. The individual risk categories do not sum up to the total risk number due to diversification benefits. Risk limits are applied in these categories separately, and against the total risk position.*

Maturity analysis by contractual maturity

The following tables represent a breakdown of the Group's balance sheet for the last two years as at September 30 by contractual maturity. The majority of the longer-term monetary assets are variable rate products, with actual maturities shorter than the contractual terms. Accordingly, this information is not relied upon by the Group in its management of interest rate risk *(refer to note 39 for information on interest rate sensitivity).*

				2007				
	At call	Overdrafts	0 to 3 month(s)	3 to 12 months	1 to 5 year(s)	Over 5 years	No specific maturity	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Assets								
Cash and liquid assets	12,796	-	-	-	-	-	-	12,796
Due from other banks	18,199	204	6,181	560	-	-	-	25,144
Trading derivatives [1]	-	-	-	-	-	-	23,019	23,019
Trading securities	-	-	21,272	-	-	-	-	21,272
Investments - available for sale	2	-	142	106	989	75	31	1,345
Investments - held to maturity	-	-	3,257	236	1,130	393	-	5,016
Investments relating to life insurance business	-	-	1,148	83	599	13,633	47,167	62,630
Other financial assets at fair value	1,516	-	6,912	3,396	9,575	3,677	113	25,189
Loans and advances	5,644	16,514	14,597	56,923	56,270	170,679	243	320,870
Due from customers on acceptances	-	-	48,089	1,233	-	-	-	49,322
All other assets	-	-	-	-	-	-	18,031	18,031
Total assets	38,157	16,718	101,598	62,537	68,563	188,457	88,604	564,634
Liabilities								
Due to other banks	21,191	408	13,266	1,653	6,048	-	-	42,566
Trading derivatives [1]	-	-	-	-	-	-	23,248	23,248
Other financial liabilities at fair value	619	-	11,450	5,090	3,163	1,523	5	21,850
Deposits and other borrowings	132,695	-	89,276	26,637	5,414	203	-	254,225
Liability on acceptances	-	-	29,210	1,233	-	-	-	30,443
Life policy liabilities	-	-	-	-	-	-	53,097	53,097
Bonds, notes and subordinated debt	-	-	2,449	14,018	40,915	23,601	-	80,983
Other debt issues	-	-	-	-	-	-	926	926
All other liabilities	-	-	-	-	-	-	27,411	27,411
Total liabilities	154,505	408	145,651	48,631	55,540	25,327	104,687	534,749
Net (liabilities)/assets	(116,348)	16,310	(44,053)	13,906	13,023	163,130	(16,083)	29,885

43 Financial risk management (continued)

	2006							
	At call	Overdrafts	0 to 3 month(s)	3 to 12 months	1 to 5 year(s)	Over 5 years	No specific maturity	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Assets								
Cash and liquid assets	12,768	-	-	-	-	-	-	12,768
Due from other banks	13,200	23	9,954	1,192	3	-	-	24,372
Trading derivatives [(1)]	-	-	-	-	-	-	13,384	13,384
Trading securities	-	-	13,740	-	-	-	-	13,740
Investments - available for sale	-	-	596	76	821	-	-	1,493
Investments - held to maturity	-	-	286	79	629	394	-	1,388
Investments relating to life insurance business	-	-	833	395	619	11,662	41,275	54,784
Other financial assets at fair value	607	-	7,269	1,862	8,572	3,791	22	22,123
Loans and advances	7,043	15,470	8,238	52,390	56,989	143,647	-	283,777
Due from customers on acceptances	-	-	40,592	1,134	-	-	-	41,726
All other assets	-	-	-	-	-	-	15,230	15,230
Total assets	33,618	15,493	81,508	57,128	67,633	159,494	69,911	484,785
Liabilities								
Due to other banks	19,370	6	13,438	3,335	73	1,267	-	37,489
Trading derivatives [(1)]	-	-	-	-	-	-	12,008	12,008
Other financial liabilities at fair value	398	-	8,430	4,016	2,657	2,141	38	17,680
Deposits and other borrowings	111,000	-	71,677	31,145	7,886	569	-	222,277
Liability on acceptances	-	-	30,980	1,134	-	-	-	32,114
Life policy liabilities	-	-	-	-	-	-	46,475	46,475
Bonds, notes and subordinated debt	-	-	1,561	4,097	43,547	15,801	-	65,006
Other debt issues	-	-	-	-	-	-	2,274	2,274
All other liabilities	-	-	-	-	-	-	21,490	21,490
Total liabilities	130,768	6	126,086	43,727	54,163	19,778	82,285	456,813
Net (liabilities)/assets	(97,150)	15,487	(44,578)	13,401	13,470	139,716	(12,374)	27,972

(1) *The underlying derivative contracts have varying contractual maturity dates; however, the fair value of these contracts at balance date is more appropriately classified as no specific maturity. This is because the fair value amounts at balance date do not necessarily represent the future cash flows of the derivative contracts at their maturity dates and would therefore not be indicative of their liquidity and solvency position. Trading derivative positions are managed on a net basis and are highly liquid.*

Liquidity risk

Liquidity risk arises from the possibility that market conditions prevailing at some point in the future will require the Group to sell positions at a value which is below their underlying worth, or may result in the inability to exit from the positions. The liquidity of a derivative, or an entire market, can be reduced substantially as a result of external economic or market events, market size or the actions of individual participants. In order to counter such risk, the Group concentrates its derivative activity in highly liquid markets.

The Group manages liquidity and funding risk through a combination of positive cash flow management, the maintenance of portfolios containing high quality liquid assets, maintenance of a prudent funding strategy and diversification of its funding base. The Group undertakes a conservative approach by imposing internal prudential limits that are in addition to regulatory requirements.

44 Fair value of financial instruments

AASB 132 "Financial Instruments: Disclosure and Presentation" requires disclosure of the net fair value of on and off-balance sheet financial instruments. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For the purposes of this note, carrying value refers to amounts reflected in the balance sheet.

The estimated fair values are based on relevant information available for the last two years at September 30. These estimates involve matters of judgement, as changes in assumptions could have a material impact on the amounts estimated. The methodologies and assumptions used in the fair value estimates are described below.

There are various limitations inherent in this disclosure. Not all of the Group's financial instruments can be exchanged in an active trading market. The Group obtains the fair (market) values for trading, available for sale and investments securities from quoted market prices, where available. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of discounted cash flow and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity. In addition, it is the Group's intent to hold most of its financial instruments to maturity and therefore it is not probable that the fair values shown will be realised in a current transaction. The methods used to estimate fair value exclude a wide range of intangible, franchise and relationship benefits such as core deposits and credit card intangibles, which are integral to a complete assessment of the Group's financial position. As a consequence, the aggregate fair value does not represent the underlying value of the Group.

		2007		2006	
		Carrying value	**Fair value**	Carrying value	Fair value
	Footnote	**$m**	**$m**	$m	$m
Financial assets					
Cash and liquid assets	(a)	**12,796**	**12,796**	12,768	12,768
Due from other banks	(a)	**25,144**	**25,144**	24,372	24,372
Trading derivatives	(b)	**23,019**	**23,019**	13,384	13,384
Trading securities	(c)	**21,272**	**21,272**	13,740	13,740
Investments - available for sale	(c)	**1,345**	**1,345**	1,493	1,493
Investments - held to maturity	(c)	**5,016**	**5,013**	1,388	1,383
Investments relating to life insurance business	(d)	**62,630**	**62,630**	54,784	54,784
Other financial assets at fair value	(e)	**25,189**	**25,189**	22,123	22,123
Hedging derivatives	(b)	**1,203**	**1,203**	480	480
Loans and advances	(f)	**320,870**	**319,654**	283,777	283,227
Due from customers on acceptances	(a)	**49,322**	**49,322**	41,726	41,726
Financial liabilities					
Due to other banks	(a)	**42,566**	**42,566**	37,489	37,489
Trading derivatives	(b)	**23,248**	**23,248**	12,008	12,008
Other financial liabilities at fair value	(e)	**21,850**	**21,850**	17,680	17,680
Hedging derivatives	(b)	**536**	**536**	333	333
Deposits and other borrowings	(g)	**254,225**	**254,214**	222,277	222,265
Liability on acceptances	(a)	**30,443**	**30,443**	32,114	32,114
Life insurance policy liabilities	(h)	**53,097**	**53,097**	46,475	46,475
Bonds, notes and subordinated debt	(i)	**80,983**	**78,365**	65,006	63,628
Other debt issues	(i)	**926**	**934**	2,274	2,254
Managed fund units on issue	(d)	**8,116**	**8,116**	7,249	7,249
Notes in circulation	(a)	**2,670**	**2,670**	2,759	2,759

The fair value estimates are based on the following methodologies and assumptions:

(a) the carrying amounts of **cash and liquid assets, due from and to other banks**, **due from customers and liability on acceptances** and **notes in circulation** approximate their fair value as they are short term in nature or are receivable or payable on demand;

(b) the fair values of **trading and hedging derivatives**, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from quoted closing market prices at balance date, discounted cash flow models or option pricing models as appropriate;

(c) the fair value of **trading securities**, **available for sale investments** and **held to maturity investments**, are based on quoted closing market prices at September 30. For unlisted securities, fair value is obtained by means of discounted cash flow models;

(d) the fair values of equity and debt securities held as **investments relating to life insurance business** and **managed fund units on issue** are based on quoted closing market prices at September 30. Where no quoted market value exists, various valuation methods have been adopted by the directors as detailed in note 1(p). In those instances, the values adopted are deemed equivalent to net fair value;

(e) the fair value of **other financial assets and liabilities accounted for at fair value** are based on quoted market prices and data or valuation techniques based upon observable market data as appropriate to the nature and type of the underlying instrument;

44 Fair value of financial instruments (continued)

(f) the carrying value of **loans and advances** is net of specific and collective provision for doubtful debts and unearned income. The fair values of loans and advances that reprice within six months of year end are assumed to equate to the carrying value. The net fair values of all other loans and advances are calculated using discounted cash flow models based on the maturity of the loans and advances. The discount rates applied are based on the current interest rates at September 30 of similar types of loans and advances, if the loans and advances were performing at balance date. The differences between estimated fair values of loans and advances and carrying value reflect changes in interest rates and creditworthiness of borrowers since loan or advance origination;

(g) with respect to **deposits and other borrowings**, the fair value of non-interest-bearing, call and variable rate deposits and fixed rate deposits repricing within six months is the carrying value at September 30. The fair value of other term deposits is calculated using discounted cash flow models based on the deposit type and its related maturity;

(h) the fair value of **life policy liabilities** is calculated using the Margin on Services methodology as detailed in note 1(ll);

(i) the fair value of **bonds, notes and subordinated debt** and **other debt issues** are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments; and

(j) **commitments to extend credit, letters of credit, guarantees and warranties and indemnities issued** are considered to be financial instruments. These financial instruments are generally not sold or traded and estimated fair values are not readily ascertainable. The fair value of these items was not calculated as very few of the commitments extending beyond six months would commit the Group to a predetermined rate of interest. Also, the fees attaching to these commitments are the same as those currently charged to enter into similar arrangements. Finally, the quantum of fees collected under these arrangements, upon which a fair value calculation would be based, is not material.

45 Operating leases

Where the Group is the lessee, the future minimum lease payment under non-cancellable operating leases are:

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Due within 1 year	**317**	364	**217**	254
Due within 1 – 5 year(s)	**849**	880	**515**	554
Due after 5 years	**1,105**	1,217	**335**	446
Total non-cancellable operating lease commitments	**2,271**	2,461	**1,067**	1,254

The Group leases various offices, branches and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. There are no contingent rents payable. The Group also leases data processing and other equipment under non-cancellable lease arrangements.

The total of future minimum sub-lease payments to be received under non-cancellable sub-leases at September 30, 2007 is $15 million (2006: $17 million). During the 2007 year, sub-lease payments received amounted to $20 million (2006: $22 million) and were netted against operating lease rental expense.

The Group enters into sale and leaseback arrangements for various properties. These transactions are generally for a term of five years, or 10 years for major properties. There is no ongoing involvement in the properties other than rental payments.

Where the Group is the lessor, the future minimum lease receipts under non-cancellable operating leases are:

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m
Due within 1 year	**75**	34	**37**	34
Due within 1 – 5 year(s)	**146**	102	**113**	101
Due after 5 years	**33**	12	**33**	12
Total non-cancellable operating lease receivables	**254**	148	**183**	147

	Group		Company	
	2007	2006	**2007**	2006
	$m	$m	**$m**	$m

46 Capital expenditure commitments

Land and buildings				
Due within 1 year	**39**	40	**32**	35
Data processing and other equipment				
Due within 1 year	**28**	45	**27**	40
Due within 1 - 5 year(s)	**-**	1	**-**	1
Other				
Due within 1 year	**13**	12	**12**	12
Total capital expenditure commitments	**80**	98	**71**	88

47 Related party disclosures

Transactions during the year with related parties

During the year, there have been dealings between the Company and its controlled entities and other related parties. The Company provides a range of services to related parties including the provision of banking facilities and standby financing arrangements. Other dealings include granting loans and accepting deposits, and the provision of finance. These transactions are normally entered into on terms equivalent to those that prevail on an arm's length basis in the ordinary course of business.

Other transactions with controlled entities may involve leases of properties, plant and equipment, provision of data processing services or access to intellectual or other intangible property rights. Charges for these transactions are normally on an arm's length basis with overseas controlled entities and are otherwise on the basis of equitable rates agreed between the parties. The Company also provides various administrative services to the Group, which may include accounting, secretarial and legal. Fees may be charged for these services.

The Company currently issues employee share compensation to Group employees on behalf of Group subsidiaries. The equity based payments expense relating to these share issues is recharged from the Company to the employing subsidiaries in the Group. *For further details, refer to note 37.*

Refer to note 21 for details of the Company's investment in controlled entities. Refer to note 41 for details of controlled entities. The aggregate of material amounts receivable from or payable to controlled entities, at balance date, is disclosed in the balance sheet. The Company has certain guarantees and undertakings with entities in the Group which are set out in the note 42.

Loans made to subsidiaries are generally entered into on terms equivalent to those that prevail on an arm's length basis, except that there are often no fixed repayment terms for the settlement of loans between parties. Outstanding balances are unsecured and are repayable in cash. No provisions for doubtful debts have been raised in relation to any outstanding balances and no expense has been recognised in respect of bad or doubtful debts due from subsidiaries.

The aggregate amounts receivable from subsidiaries for the last two years to September 30 were:

	Company	
	2007	2006
	$m	$m
Subsidiaries		
Balance at beginning of year	**10,154**	15,912
Net cash flows in amounts due from/to controlled entities	**(8,332)**	(5,423)
Foreign currency translation adjustments	**(312)**	(335)
Balance at end of year	**1,510**	10,154

Material transactions with subsidiaries for the last two years to September 30 included:

	Company	
	2007	2006
	$m	$m
Net interest income received from	**98**	576
Net operating lease revenue received from	**11**	2
Net management fees received from	**141**	128
Dividend revenue from	**974**	845

47 Related party disclosures (continued)

Superannuation funds

The following payments were made to superannuation funds sponsored by the Group:

	Group		Company	
	2007	2006	**2007**	2006
Payment from Group/Company to:	**$m**	$m	**$m**	$m
National Australia Bank Group Superannuation Fund A	**149**	139	**149**	139
Clydesdale Bank Pension Scheme	**74**	208	**-**	-
National Australia Bank UK Retirement Benefits Plan	**22**	44	**22**	44
Yorkshire Bank Pension Fund	**48**	125	**-**	-
National Wealth Management Superannuation Plan (Australia)	**10**	13	**-**	-

Transactions between the superannuation funds and Group during the last two years were made on commercial terms and conditions and are considered trivial in nature. In this context, transactions are trivial in nature when they are considered of little or no interest to the users of the financial report in making and evaluating decisions about the allocation of scarce resources.

Details of key management personnel (KMP) of the Group

The following persons were KMP of the Company and Group during the year ended September 30, 2007:

Name	Position
JM Stewart	Executive director, Group Chief Executive Officer
A Fahour	Executive director, Chief Executive Officer, Australia
MJ Ullmer	Executive director, Finance Director and Group Chief Financial Officer
CA Clyne	Managing Director and Chief Executive Officer, Bank of New Zealand
MA Joiner	Group Executive General Manager, Development and New Business
MJ Hamar	Group Chief Risk Officer
JE Hooper	Chief Executive Officer, nabCapital
LM Peacock	Chief Executive Officer, United Kingdom
PL Thodey	Group Executive General Manager
MA Chaney	Non-executive director, Chairman
PA Cross	Non-executive director
PJB Duncan	Non-executive director
DT Gilbert	Non-executive director
TK McDonald	Non-executive director
PJ Rizzo	Non-executive director
JS Segal	Non-executive director
JG Thorn	Non-executive director
GA Tomlinson	Non-executive director
GM Williamson	Non-executive director

Details of directors of the Company who held office during the year are set out in the Report of the directors.

Remuneration of KMP

Total remuneration of KMP of the Company and Group for the year ended September 30:

	Short-term benefits			Post-employment benefits	Other long term benefits	Equity-based benefits		Termination benefits	Total
	Cash salary fixed	Cash STI at risk	Non-monetary fixed	Super-annuation fixed		Shares at risk	Options and rights at risk		
Company and Group	$	$	$	$	$	$	$	$	$
KMP									
2007	**11,964,860**	**10,128,940**	**721,911**	**1,406,085**	**40,011**	**7,501,838**	**8,528,773**	**-**	**40,292,418**
2006	11,297,680	8,686,955	571,484	917,529	55,021	6,597,946	6,508,105	-	34,634,720

47 Related party disclosures (continued)

The Company has applied the exemption under the *Corporations Regulations* 2001 (Cth) which exempts listed companies from providing further detailed remuneration disclosures in relation to their KMP in their annual financial reports required by AASB 124 "Related Party Disclosures". These remuneration disclosures are provided in the remuneration report and have been audited as required.

Performance options, performance rights and shareholdings of KMP are set out in note 48.

Loans to KMP and their related parties

Loans made to directors of the Company are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions.

Loans to other KMP of the Company and Group may be made on similar terms and conditions generally available to other employees within the Group. Loans to KMP of the Company and Group may be subject to restrictions under applicable laws and regulations including the *Corporations Act* 2001 (Cth).

Loans to KMP of the Company and Group at year end may, in some instances, be an estimate of the September 30 statement balances. Where estimates have been used at the end of 2006, the balance at the beginning of 2007 reflects the actual opening balance, and therefore, may differ from the prior year closing balance. The table below categorises the KMP and their related party loans:

Company and Group	Terms and conditions	Balance at beginning of year $	Interest charged $	Interest not charged $	Write-off $	Balance at end of year $	KMP in group during year No.
KMP							
2007	**Normal**	**1,570,503**	**72,330**	**-**	**-**	**1,115,850**	**6**
	Employee	**1,607,518**	**80,781**	**-**	**-**	**2,010,833**	**5**
2006	Normal	1,252,225	52,649	-	-	1,028,889	10
	Employee	1,594,843	105,758	-	-	1,612,009	3
Other related parties [(1)]							
2007	**Normal**	**16,166,046**	**1,114,856**	**-**	**-**	**21,458,426**	**6**
	Employee	**-**	**-**	**-**	**-**	**-**	**-**
2006	Normal	13,204,576	927,245	-	-	14,966,430	4
	Employee	-	-	-	-	-	-

[(1)] *Includes close family members of KMP and any entity KMP or close family members of KMP control, jointly control or significantly influence.*

Details regarding KMP (and their related parties) aggregate loans above $100,000 at any time during the year ended September 30, 2007 were:

Company and Group	Terms and conditions	Balance at beginning of year $	Interest charged $	Interest not charged $	Write-off $	Balance at end of year $	KMP highest indebtedness during year [(1)] $
KMP							
Current							
CA Clyne	Employee	558,000	22,358	-	-	278,000	626,000
MA Joiner	Normal	-	74	-	-	1,660	-
	Employee	2,632	43,113	-	-	1,199,712	2,415,428
JE Hooper	Normal	250,564	12,180	-	-	229,043	243,605
	Employee	1,044,687	15,301	-	-	522,154	1,047,289
PL Thodey	Normal	91,246	7,168	-	-	10,884	-
	Employee	2,199	-	-	-	10,967	13,477
PA Cross	Normal	507,195	17,774	-	-	9,166	521,861
DT Gilbert [(2)]	Normal	16,852,347	1,149,728	-	-	22,225,144	790,000

[(1)] *Represents aggregate highest indebtedness of KMP during the financial year. All other items in this table relate to the KMP and their related parties.*

[(2)] *Includes business loans to persons and entities other than Mr Gilbert but over which Mr Gilbert has a significant influence.*

Other financial instrument transactions

All other transactions with KMP of the Company and Group and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services. All such transactions that have occurred with KMP of the Company and Group and their related parties have been trivial or domestic in nature. In this context, transactions are trivial in nature when they are considered of little or no interest to the users of the financial report in making and evaluating decisions about the allocation of scarce resources. Transactions are domestic in nature when they relate to personal household activities.

48 Equity instrument holdings of key management personnel

Equity instrument disclosures relating to key management personnel (KMP)

(i) Terms and conditions of performance options and performance rights grants

The performance options and performance rights currently granted by the Company to KMP of the Company and Group, including executive directors of the Company, are over ordinary shares under the Company's National Australia Bank Executive Share Option Plan No. 2 (executive share option plan) and the National Australia Bank Performance Rights Plan (performance rights plan). No performance options or performance rights are granted to non-executive directors. The terms and conditions of each performance option and performance right granted to KMP during the year, including fair value, exercise period, exercise price and performance conditions, are detailed in the remuneration report.

Performance options holdings

The number of performance options over ordinary shares in the Company held during the financial year by each KMP of the Company and Group are set out below:

	Performance options						
Name	Balance at beginning of year	Granted during year as remuneration	Exercised during year	Other changes during year	Balance at end of year	Vested during year	Vested and exercisable at end of year
Executive directors							
A Fahour	444,000	284,250	-	-	728,250	-	-
JM Stewart	1,675,000	-	-	-	1,675,000	-	-
MJ Ullmer	259,000	152,514	-	-	411,514	-	-
Other senior executives							
CA Clyne	173,750	97,500	-	-	271,250	-	-
MJ Hamar	71,250	72,625	-	-	143,875	-	-
JE Hooper	257,344	120,000	-	-	377,344	-	15,000
MA Joiner [(1)]	-	303,125	-	-	303,125	-	-
LM Peacock	445,732	195,732	-	-	641,464	-	-
PL Thodey	654,620	79,892	(50,000)	-	684,512	-	25,000

[(1)] *Mr Joiner was granted 103,125 performance options following his appointment as KMP in April 2007.*

No performance options were vested and unexercisable at September 30, 2007.

Performance rights holdings

The number of performance rights over ordinary shares in the Company held during the financial year by each KMP of the Company and Group are set out below:

	Performance rights						
Name	Balance at beginning of year	Granted during year as remuneration	Exercised during year	Other changes during year	Balance at end of year	Vested during year	Vested and exercisable at end of year
Executive directors							
A Fahour	111,000	71,063	-	-	182,063	-	-
JM Stewart	418,750	-	-	-	418,750	-	-
MJ Ullmer	64,750	38,129	-	-	102,879	-	-
Other senior executives							
CA Clyne	43,438	24,375	-	-	67,813	-	-
MJ Hamar	17,813	18,157	-	-	35,970	-	-
JE Hooper	50,586	30,000	-	-	80,586	-	-
MA Joiner [(1)]	-	57,032	-	-	57,032	-	-
LM Peacock	111,433	48,933	-	-	160,366	-	-
PL Thodey	88,655	19,973	-	-	108,628	-	-

[(1)] *Mr Joiner was granted 7,032 performance rights following his appointment as KMP in April 2007.*

No performance rights were vested and exercisable, or vested and unexercisable, at September 30, 2007.

48 Equity instrument holdings of key management personnel (continued)

(ii) Shareholdings

The numbers of shares in the Company held by each KMP of the Company and Group or their related parties (their close family members or any entity they, or their close family members, control, jointly control or significantly influence) are set out below:

Name	Balance at at beginning of year	Granted during year as remuneration [1]	Received during year on exercise of performance options or rights	Other changes during year	Balance at end of year
Executive directors					
A Fahour	389,534	42,587	-	-	432,121
JM Stewart	69,579	37,260	-	-	106,839
MJ Ullmer	22,138	44,105	-	-	66,243
Other senior executives					
CA Clyne [2]	2,891	4,168	-	-	7,059
MJ Hamar [2]	13,419	-	-	-	13,419
JE Hooper [2]	14,195	12,237	-	-	26,432
MA Joiner [3]	-	101,892	-	-	101,892
LM Peacock	17,114	53,949	-	-	71,063
PL Thodey	160	20,797	50,000	(50,000)	20,957
Non-executive directors					
MA Chaney	21,761	1,336	-	-	23,097
PA Cross	9,468	1,728	-	-	11,196
PJB Duncan	11,842	678	-	182	12,702
DT Gilbert	8,171	1,704	-	-	9,875
TK McDonald	2,000	-	-	400	2,400
PJ Rizzo	3,173	533	-	-	3,706
JS Segal	8,840	1,635	-	-	10,475
JG Thorn	4,935	483	-	2,000	7,418
GA Tomlinson	31,765	1,341	-	1,107	34,213
GM Williamson	6,396	-	-	1,200	7,596

(1) *For details regarding the terms and conditions of shares granted as remuneration to KMP during the year, refer to the remuneration report.*

(2) *Some of the Above-Target awards to KMP are still to be allocated in respect of the year ended September 30, 2006. These are 1,816 shares for Mr Hamar and a further 20 shares for Mr Clyne and 231 shares for Mr Hooper.*

(3) *Mr Joiner was granted 36,600 shares following his appointment as KMP in April 2007.*

Transactions involving equity instruments, other than equity-based payment remuneration, with KMP of the Company and Group or their related parties are set out below:

Name	Balance at start of year	Changes during year	Balance at end of year
National Income Securities			
Non-executive directors			
DT Gilbert	1,253	-	1,253
JS Segal	180	-	180
GA Tomlinson	350	-	350

49 Remuneration of external auditor

	Group 2007 $'000	Group 2006 $'000	Company 2007 $'000	Company 2006 $'000
Total fees paid or due and payable to Ernst & Young: [(1)]				
Audit fees				
Audit and review of financial statements	**15,900**	18,304	**8,072**	11,087
AIFRS audit services	**-**	951	**-**	951
Comfort letters	**347**	332	**316**	332
Total audit fees	**16,247**	19,587	**8,388**	12,370
Audit-related fees				
Regulatory	**4,765**	2,879	**2,626**	1,078
Non-regulatory	**3,935**	1,420	**2,394**	931
Total audit-related fees	**8,700**	4,299	**5,020**	2,009
Tax fees	**-**	1,136	**-**	596
All other fees	**1,578**	1,131	**298**	25
Total remuneration of Ernst & Young	**26,525**	26,153	**13,706**	15,000

(1) *Fees exclude goods and services tax, value-added tax or equivalent taxes.*

Audit fees consist of fees for the audit of the annual consolidated financial statements of the Group and Company, including controlled entities that are required to prepare financial statements and the provision of comfort letters to underwriters in connection with securities offerings. For 2006, these services included procedures in relation to the *US Sarbanes-Oxley Act of 2002.*

Audit-related fees have been divided into two sub-categories. Audit-related fees (regulatory) consist of fees for services required by statute or regulation that are reasonably related to the performance of the audit or review of the Group's financial statements and which are traditionally performed by the external auditor. This sub-category includes engagements where the external auditor is required by statute, regulation or regulatory body to attest to the accuracy of the Group's stated capital adequacy or other financial information or to attest to the existence or operation of specified financial controls. For 2007 this included assurance services relating to the content of the Company's Basel II accreditation application to APRA.

Audit-related fees (non-regulatory) consist of fees for assurance and related services that are not required by statute or regulation but are reasonably related to the performance of the audit or review of the Group's financial statements and which are traditionally performed by the external auditor. For 2007 these services include assurance services relating to internal control reviews, employee benefit plan audits, procedures in relation to financial disclosures by the Group such as its annual and half-year results announcements, corporate responsibility detailed facts and information pack, and audit-related commentary concerning financial accounting and reporting standards.

For 2006 and 2007, all other fees include regulatory or compliance audits/attestations for Wealth Management entities and the sub-leasing of office space to BNZ.

A description of the Audit Committee's pre-approval policies and procedures is set out on page 37. Further details of the non-audit services provided by Ernst & Young to the Group during 2007 and the fees paid or due and payable for those services are set out in the report of the directors.

50 Fiduciary activities

The Group's fiduciary activities consist of investment management and other fiduciary activities conducted as manager, custodian or trustee for a number of investments and trusts, including superannuation and approved deposit funds, and wholesale and retail investment trusts. The aggregate amounts of funds concerned, which are not included in the Group's balance sheet, are as follows:

	Group 2007 $m	Group 2006 $m
Funds under management	**31,120**	27,256
Funds under trusteeship	**6,234**	4,227
Funds under custody and investment administration	**514,316**	473,659

Arrangements are in place to ensure that these activities are managed independently from all other activities of the Group.

51 Life insurance business disclosures

The Group conducts its life insurance business through a number of controlled entities including MLC Limited (MLC) and MLC Lifetime Company Limited (MLC Lifetime) in Australia and BNZ Life Insurance Limited in New Zealand. In 2006, it also included National Australia Financial Management Limited (NAFiM) in Australia and, up to May, MLC (Hong Kong) Limited in Hong Kong and PT MLC Life Indonesia in Indonesia. This note is intended to provide detailed disclosures in relation to the life insurance business conducted through these controlled entities.

On 1 October 2006, life insurance policy liabilities relating to traditional business were transferred from MLC Lifetime to MLC as part of a transfer under Part 9 of the *Life Insurance Act* 1995 (Cth). At the same time, all life insurance policy liabilities were transferred from NAFiM to MLC. These transfers do not affect the overall financial position of the Group, but do result in movements between MLC, MLC Lifetime and NAFiM.

Appropriately qualified actuaries have been appointed in respect of each life insurance business within the Group and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this annual financial report, including compliance with the regulations of the *Life Insurance Act* 1995 (Cth) where appropriate.

(a) Details of the solvency position of each life insurer in the Group

Australian life insurers

Under the *Life Insurance Act* 1995 (Cth), life insurers are required to hold reserves in excess of policy liabilities to meet certain solvency and capital adequacy requirements. These additional reserves are necessary to support the life insurer's capital requirements under its business plan and to provide a cushion against adverse experience in managing long-term risks. In Australia, the Life Insurance Actuarial Standards Board has issued Actuarial Standard AS 2.04 "Solvency Standard" for determining the level of solvency reserves. This standard prescribes a minimum capital requirement for each statutory fund and the minimum level of assets required to be held in each statutory fund. Capital adequacy is determined in accordance with Actuarial Standard AS 3.04 "Capital Adequacy Standard".

The summarised information provided below has been extracted from the financial statements prepared by each Australian life insurer in the Group for the purpose of fulfilling reporting requirements prescribed by local acts and prevailing prudential rules for 2007 and 2006. For detailed solvency information on a statutory funds basis, users of this annual financial report should refer to the financial statements prepared by each life insurer.

	MLC		MLC Lifetime		NAFiM	
	2007	2006	**2007**	2006	**2007**	2006
	$m	$m	**$m**	$m	**$m**	$m
Solvency reserve as at September 30	**757**	73	**36**	561	**n/a**	11
Assets available for solvency as at September 30	**1,234**	310	**135**	806	**n/a**	29
Coverage of solvency reserve (times)	**1.6**	4.3	**3.8**	1.4	**n/a**	2.6

Non-Australian life insurers

The non-Australian life insurers in the Group are not governed by the *Life Insurance Act* 1995 (Cth) as they are foreign-domiciled life insurance companies. Each of these companies is required to meet similar tests of capital adequacy and solvency based on the regulations of relevant local authorities.

(b) Actuarial methods and assumptions – Australian life insurers

(i) Policy liabilities

The policy liabilities have been calculated in accordance with Actuarial Standard AS 1.04 "Valuation of Policy Liabilities" issued by the Life Insurance Actuarial Standards Board (refer to note 1(z)). This measurement is consistent with the requirements of the applicable accounting standards, AASB 1038 "Life Insurance Contracts", and AASB 139 "Financial Instruments: Recognition and Measurement" and AASB 118 "Revenue" for life investment contracts.

51 Life insurance business disclosures (continued)

(ii) Types of business and profit carriers

The methods used, and in the case of insurance contracts, the profit carriers used in order to achieve the systematic release of profit margins are:

Product type	Actuarial method	Profit carrier
Investment-linked	Fair value	n/a
Non-investment-linked		
Traditional business - participating	Projection	Bonuses
Traditional business - non-participating	Projection	Premiums
Term life insurance - regular premiums	Projection	Premiums
Term life insurance - single premium	Projection	Claims
Disability income insurance	Projection	Premiums
Annuity business	Projection	Annuity payments

(iii) Discount rates

These are the rates used to discount future cash flows to determine their net present value. To the extent that policy benefits are contractually linked to the performance of assets held, the rate used is based on the market returns of those assets. For other policy liabilities, the rates used are based on risk-free rates.

	MLC and MLC Lifetime		NAFiM	
Discount rates	**2007**	2006	**2007**	2006
Traditional business - participating				
Ordinary	**5.9%** (1)	5.6% (1)	**n/a**	n/a
Superannuation	**7.1%** (1)	6.8% (1)	**n/a**	n/a
Traditional business - non-participating				
Ordinary	**6.7%** (2)	n/a	**n/a**	5.8% (2)
Term life and disability income (excluding claims in payment) insurance	**6.6 - 7.0%** (2)	5.8 - 6.1% (2)	**n/a**	5.8 - 6.1% (2)
Disability business	**6.7%** (2)	5.9% (2)	**n/a**	5.9% (2)
Annuity business	**6.5 - 6.8%** (2)	5.9 - 6.0% (2)	**n/a**	5.9 - 6.0% (2)

(1) *After tax.*

(2) *Before tax.*

(iv) Future expense inflation and indexation

Future expense inflation is assumed to be 3.7% (2006: 2.5%) per annum for MLC and MLC Lifetime. The Group revised its methodology for setting the future expense inflation rate during the year. Of the movement, 0.9% relates to the methodology change whilst 0.3% is a change in the assumption. Future investment management fees have been assumed to remain at current rates. Benefits and/or premiums on certain policies are automatically indexed by the consumer price index. The policy liabilities assume a future take-up of these indexation options based on the relevant company's recent experience. The assumed annual indexation rates for policy liabilities for outstanding disability and salary continuance claims was 3.7% (2006: 3.4%).

(v) Rates of taxation

Rates of taxation in relation to the Australian life insurance business are outlined in note 1(ff).

51 Life insurance business disclosures (continued)

(vi) Mortality and morbidity

Future mortality and morbidity assumptions are based on actuarial tables published by the Institute of Actuaries of Australia, with adjustments to claim incidence and termination rates based on recent experience as follows:

	MLC and MLC Lifetime
Traditional business	Male: 90% of IA 95-97 [(1)] Female: 95% of IA 95-97 [(1)]
Term life insurance	Male/Female: 65 - 80% of IA 95-97 for non-smokers with adjustments for smokers [(1)]
Loan cover term life insurance	Male/Female: 80 - 110% of IA 95-97 for non-smokers with adjustments for smokers [(1)]
Disability income insurance	Male: Rates similar to 105% of incidence and 70 - 100% of termination rates of IAD 89-93 [(2)]
	Female: Rates similar to 75% of incidence and 70 - 100% of termination rates of IAD 89-93 [(2)]
Loan cover disability income insurance	Male/Female: Rates similar to 115 - 140% for non-smokers and 145 - 175% for smokers of incidence and 100% of termination rates of IAD 89-93 [(2)]
Annuity business	Male: 61.75% + 0.95% for each year > 75 to max 95% of IM 92 [(3)]
	Female: 47.5% + 1.5% for each year > 75 to max 100% of IF 92 [(3)]

[(1)] *IA 95-97 is a mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997.*

[(2)] *IAD 89-93 is a disability table developed by the Institute of Actuaries of Australia based on Australian insured lives disability income business experience from 1989 to 1993.*

[(3)] *IM 92 and IF 92 are mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on UK annuitant lives experience from 1991 to 1994. The tables refer to male and female lives, respectively and incorporate factors which allow for mortality improvements since the date of the investigation (there is no standard Australian annuitant mortality table).*

(vii) Discontinuances

Assumed future annual rates of discontinuance for the major classes of business are as follows:

	MLC and MLC Lifetime		NAFiM	
Product type	**2007**	2006	**2007**	2006
Traditional business - participating				
Ordinary	**6.0%**	6.0%	**n/a**	n/a
Superannuation	**7.0%**	7.0%	**n/a**	n/a
Traditional business - non-participating				
Ordinary	**3.0%**	n/a	**n/a**	3.0%
Term life insurance	**10.0%**	11.0%	**n/a**	11.0%
Disability insurance	**11.0 - 12.0%**	12.0%	**n/a**	14.0%
Loan cover term life and disability income insurance	**31.0%**	n/a	**n/a**	30.0%
National credit card	**18.0%**	18.0%	**n/a**	n/a
Superannuation business	**14.0 - 15.0%**	14.0 - 15.0%	**n/a**	n/a
Allocated pension business	**14.0%**	14.0%	**n/a**	n/a

(viii) Surrender values

Surrender values are based on the provision specified in policy contracts. The surrender value basis for traditional policies typically include recovery of policy acquisition and maintenance costs. In all cases, the surrender values specified in the contracts exceed those required by the *Life Insurance Act* 1995 (Cth).

51 Life insurance business disclosures (continued)

(ix) Future participating benefits

For participating business, the Group's policy is to set bonus rates such that over long periods, the returns to policyholders are commensurate with the investment returns achieved on relevant assets backing the policies, together with other sources of profit arising from this business. Pre-tax profits are split between policyholders and shareholders with the valuation allowing for shareholders to share in the pre-tax profits at the maximum rate of 20% (15% for certain policies issued before 1980). In applying the policyholders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between various classes and sizes of policies in force. Assumed future bonus rates included in policy liabilities are set such that the present value of policy liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholders' right to participate in future pre-tax profits.

Assumed future annual bonus rates for the major classes of business are:

	Ordinary business		Superannuation business	
	2007	2006	**2007**	2006
Bonus rate on sum assured	**2.6%**	2.0%	**3.4%**	2.8%
Bonus rate on existing bonuses	**2.6%**	2.0%	**3.4%**	2.8%

(c) Disclosure of assumptions – non-Australian life insurers

The policy liabilities for the Group's non-Australian life insurers have been determined by the respective entity's actuary in accordance with the guidelines and standards mandated by their local authorities. Until May 2006, MLC (Hong Kong) Limited and PT MLC Life Indonesia calculated policy liabilities in accordance with the Margin on Services method.

(d) Effects of changes in actuarial assumptions from September 30, 2006 to September 30, 2007

	Change in future profit margins (decrease)/ increase $m	Change in net policy liabilities increase/ (decrease) $m
Assumption category		
Market-related changes to discount rates	(135)	67
Non-market-related changes to discount rates	(4)	-
Inflation rate	2	(4)
Mortality and morbidity	95	-
Discontinuance rates	22	-
Maintenance expenses	(5)	-
Other assumptions	2	-
Total	(23)	63

Sensitivity analyses

Sensitivity analyses are conducted to quantify the exposure to risk of changes in the key underlying variables such as risk discount rate, mortality, morbidity, discontinuances and expenses. The valuations included in the reported results and the best estimate of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and financial position and as such represents risk. The table below illustrates how changes in key assumptions would impact the reported profit and policy liabilities of the Group in respect of life insurance business.

		Gross (before reinsurance)		Net (of reinsurance)	
		(Loss)/profit	Policy liabilities	(Loss)/profit	Policy liabilities
	Change in variable	$m	$m	$m	$m
Risk discount rates	1% increase in risk discount rates	(59)	84	(59)	84
Inflation rate	0.5% increase in inflation rate	6	(9)	6	(9)
Annuitant mortality	50% increase in rate of mortality improvements	(1)	1	(1)	1
Mortality	10% increase in mortality rates	-	-	-	-
Morbidity	10% increase in disability incidence rates	-	-	-	-
Morbidity	10% decrease in disability termination rates	(14)	20	(12)	17
Discontinuance rates	10% increase in discontinuance rates	-	-	-	-
Maintenance expenses	10% increase in maintenance expenses	-	-	-	-

51 Life insurance business disclosures (continued)

Terms and conditions of insurance contracts

The key terms and conditions of the life insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows are outlined below:

Type of contract	Nature of product	Key risks affecting future cash flows
Term life and disability	Payment of specified benefits on death or ill health of policyholder	Mortality, morbidity, lapse rates
Life annuity contracts	Regular income for the life of the insured in exchange for initial single premium	Mortality
Conventional with discretionary participating benefits	Combination of life insurance and savings Sum assured is specified and is augmented by annual reversionary bonuses	Mortality, lapse rates, investment earnings

	Group	
	2007	2006
	$m	$m
Sources of operating profit		
Life insurance contracts		
Emergence of shareholder planned margins	**142**	128
Experience profit	**9**	19
Effect of changes to assumptions	**-**	(2)
Capitalised losses recognised	**-**	(3)
Life investment contracts		
Fees earned	**137**	122
Investment earnings on shareholder retained profits and capital	**20**	53

	Total life insurance funds	
	2007	2006
	$m	$m
Schedule of expenses		
Outward reinsurance expense	**130**	69
Claims expense	**515**	565
Change in policy liabilities	**5,844**	4,456
Policy acquisition expense		
Commission	**245**	238
Other	**141**	132
Policy maintenance expense		
Commission	**218**	202
Other	**224**	219
Investment management expense	**20**	33
Total life insurance expenses	**7,337**	5,914

52 Capital adequacy

The Group's primary prudential supervisor is APRA. APRA establishes capital adequacy requirements for banks, the prime objective of which is to ensure that an adequate level of capital is maintained, thereby providing a buffer to absorb unanticipated losses. Consistent with the international standards of the Basel Committee on Banking Supervision, APRA's current approach, in accordance with Basel I, to assessing capital adequacy of banks, focuses on three main elements: the credit risk associated with a bank's exposures, the market risk associated with a bank's trading activities, and the form and quantity of a bank's capital.

For regulatory purposes, capital comprises two elements, eligible Tier 1 and Tier 2 capital, from which certain deductions are made to arrive at Tier 1 and Tier 2 capital. Tier 1 capital includes paid-up ordinary shares, hybrid instruments (such as National Income Securities), reserves (excluding asset revaluation reserves, cash flow hedge reserves and the general reserve for credit losses), retained profits less goodwill and other intangible assets, and certain other deductions. In addition, where recognised deferred tax assets are greater than deferred tax liabilities, the net deferred tax asset is deducted from Tier 1 capital. Tier 2 capital includes a portion of asset revaluation reserves, collective provision for doubtful debts (net of associated deferred tax assets) and the general reserve for credit losses, certain hybrid debt/equity instruments and eligible subordinated long-term debt.

The total amount of the resultant capital is subject to further deductions to form the Total Capital base. Such deductions include net assets in controlled entities that are deconsolidated for regulatory capital purposes and provision of first loss guarantees to securitisation entities. Tier 2 capital is limited to 100% of net Tier 1 capital. Lower Tier 2 capital is restricted to 50% of Tier 1 capital, with Upper Tier 2 representing the balance.

Under guidelines issued by APRA, investments in life insurance and funds management entities are deconsolidated for the purposes of calculating capital adequacy and those activities are excluded from the calculation of risk-weighted assets. The tangible component of such investments, comprising net tangible assets on acquisition, is deducted from the Total Capital base. The intangible component (being the difference between acquisition costs and the tangible component at acquisition) is deducted from Tier 1 capital. Additionally, any profits from these entities included in the Group's results, to the extent that they have not been remitted to the Company in the form of dividends, are excluded from the determination of Tier 1 capital.

As the measure of capital adequacy, Australian banks are required to maintain a minimum ratio of Total Capital base to total risk-weighted assets of 8.0%, of which a minimum of 4.0% must be held in Tier 1 capital. The numerator of the ratio is the Total Capital base. The denominator of the ratio is the total risk-weighted asset exposure (i.e. sum of credit risk-weighted exposures and the equivalent market risk-weighted exposure). Ultimately, a breach of the required ratios under the prudential standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital or cease business.

Basel II

On June 26, 2004, the Basel Committee on Banking Supervision endorsed the publication of the 'International Convergence of Capital Measurement and Capital Standards: a Revised Framework', commonly referred to as Basel II. The implementation process of Basel II into Australian regulation has been defined by APRA through the release of its prudential standards.

At the heart of Basel II is a series of best practice risk management and capital management methods that are integral to the Group's approach to running its business. Risk appetite is an integral part of the operational and strategic planning process for the Group. The setting and monitoring of the Group's risk appetite is supported by the Group's implementation of credit, operational and market risk tools defined by the Basel II framework as well as its Internal Capital Adequacy Assessment Process (ICAAP) and Economic Capital framework and model.

Basel II allows for several increasingly sophisticated approaches for Credit and Operational Risk. The Group is targeting accreditation in a phased manner due to the nature of its operations, which are located in three regulatory jurisdictions.

The Group already has advanced accreditation for Traded Market Risk. The Group is targeting advanced accreditation for Operational Risk (AMA) and Credit Risk (IRB) for the Australian, nabCapital and New Zealand operations during 2008, as per the requirements of APRA and the Reserve Bank of New Zealand (RBNZ). All submissions for AMA have been made to these regulators. IRB models for our material portfolios are developed and in use, and are part of the Group's agreed implementation timetable with APRA and RBNZ.

The Group's UK operations, regulated by the Financial Services Authority (FSA) as the local regulator, are expected to commence standardised operational risk and credit risk accreditation on January 1, 2008 in accordance with the FSA's requirements. The UK operations will move to advanced accreditation for operational risk and credit risk at a timing to be agreed with APRA and the FSA.

The Group will submit its Interest Rate Risk in the Banking Book (IRRBB) accreditation application in December 2007 in accordance with the timetable set out by APRA for advanced banks, and anticipates achieving IRRBB accreditation in June 2008.

Under Basel II, the Group will continue to target an appropriate level of capital commensurate with its risk profile. APRA has stated that any capital relief will be limited to 10% of Basel I levels during 2008 and 2009. The Group will be in discussions with APRA to agree the extent of capital relief with the implementation of Basel II.

52 Capital adequacy (continued)

Regulatory Changes from January 1, 2008

APRA has released standards for Capital Adequacy that are effective January 1, 2008 and will align the Australian Banking Regulation with the Basel II Accord. On November 30, 2007 APRA announced that changes to capital deductions that had previously been scheduled to take effect from January 1, 2008 would not take effect until the Group becomes fully accredited for Basel II. Upon becoming fully accredited for Basel II the impact of these changes is that deductions currently made from Total Capital, principally for investments in non-consolidated controlled entities (net of intangible component deducted from Tier 1 capital), will be deducted 50% from Tier 1 and 50% from Total Capital. The Group impact on Tier 1 of approximately $0.7 billion, primarily relates to Wealth Management. This will have no impact on the Adjusted Common Equity ratio.

The January 1, 2008 position will be affected by the regulatory capital treatment of $0.5 billion currently included in Tier 1 capital relating to profit arising in the banking group from the sale of the life insurance businesses of Bank of New Zealand and National Australia Group Europe to Wealth Management subsidiaries. This amount will be excluded from Tier 1 capital from January 1, 2008.

Capital ratios

In addition to the Tier 1 and Total Capital regulatory capital ratios, the Group also uses the Adjusted Common Equity (ACE) ratio to manage its capital position. The ACE ratio measures the core equity capital available to support banking operations and is generally calculated as Tier 1 capital less residual Tier 1 instruments, the tangible component of the investment in non-consolidated controlled entities and any other items deducted from Total Capital, divided by risk weighted assets. The ACE ratio is a key measure used by analysts to assess a financial institution's capital strength.

Capital ratios are monitored against internal capital targets, which are set by reference to factors such as market, regulatory and rating agencies expectations and the Group's risk profile. The Group has revised its Tier 1 target range from 6.25%-7.00% to 6.00%-6.75%. This reflects the Group's focus on an efficient capital structure and is consistent with the Group's credit rating and peers.

The ranges at September 30, 2007, and comparatives at September 30, 2006, are as follows:

	Target ranges at September 30, 2007	Target ranges at September 30, 2006
	%	%
ACE ratio	**4.25 – 5.00**	4.25 - 5.00
Tier 1 ratio	**6.00 – 6.75**	6.25 - 7.00

	2007	2006
	%	%
Adjusted common equity	**4.90**	5.35
Tier 1	**6.67**	7.35
Tier 2	**3.69**	3.88
Deductions	**(0.37)**	(0.42)
Total capital	**9.99**	10.81

Regulatory capital

	2007	2006
	$m	$m
Tier 1 capital	**23,684**	23,404
Tier 2 capital	**13,121**	12,354
Deductions	**(1,313)**	(1,351)
Total capital	**35,492**	34,407

Risk-adjusted assets

	2007	2006
	$m	$m
Total risk-adjusted assets and off-balance sheet exposures – credit risk	**351,410**	304,771
Risk-adjusted assets – market risk	**3,856**	13,552
Total assessed risk exposure	**355,266**	318,323

52 Capital adequacy (continued)

During 2007 the Tier 1 and ACE ratios fell as a result of on-market buyback of shares totalling $1.2 billion and strong growth in risk weighted assets. This was partially offset by the conversion of $658 million in exchangeable capital units into ordinary shares (Refer to note 34 in the financial report for further detail), and the UK pension deficit moving to a surplus. The capital ratios are within the Group's revised target ranges at September 30, 2007.

$0.3 billion of shares were purchased on market and transferred to participants in the Company's dividend reinvestment plan (DRP) and employee share and option plans. When combined with the result of the on-market buyback of shares the overall capital management programme amounted to $1.5 billion. The strong risk weighted asset growth, particularly in the second half of the year, was driven by business lending and balance sheet impacts arising from the events in global credit markets. These impacts principally relate to draw downs of standby liquidity facilities and increased drawings by clients. As at September 30, 2007, the aggregate effect of these impacts was to increase risk-weighted assets by approximately $10 billion.

During the year ended September 30, 2007, 2.6 million of fully paid ordinary shares were issued under the bonus share plan (BSP) to shareholders at varying prices. Additionally $2.6 billion of subordinated debt was issued throughout the year by Group entities to support the Group's Total Capital Ratio.

The 2004 APRA directive that the calculation of the market risk component of risk-weighted assets must be by the Standard Method was removed with effect from January 1, 2007, and the Group has returned to the Internal Model Method reducing risk-weighted assets by approximately $9.9 billion.

53 Events subsequent to balance date

On November 29, 2007, the Group announced that it had agreed to acquire Great Western Bancorporation, the holding company of Great Western Bank, a regional bank based in Sioux Falls, South Dakota, for US$798 million. Great Western Bank has assets of approximately US$3.4 billion, around 800 employees and more than 100 branches across six states in the mid-west of the United States of America. The acquisition is subject to normal regulatory approvals and is currently planned for completion in the second half of the 2008 financial year.

No further matter, item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report that, in the opinion of the directors, has significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in the future years.

Directors' declaration

The directors of National Australia Bank Limited declare that:

1. (a) in the opinion of the directors, the financial statements and the notes thereto as set out on pages 42 to 134 and the additional disclosures included in the audited pages of the remuneration report, comply with Accounting Standards in Australia and the *Corporations Act* 2001 (Cth);

   (b) in the opinion of the directors, the financial statements and notes thereto give a true and fair view of the financial position of the Company and the Group as at September 30, 2007, and of the performance of the Company and the Group for the year ended September 30, 2007;

   (c) in the opinion of the directors, at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

   (d) the directors have been given the declarations required by section 295A of the *Corporations Act* 2001 (Cth); and

2. there are reasonable grounds to believe that the Company and certain controlled entities will, as a group, be able to meet any obligations or liabilities to which they are or may become subject by virtue of the deed of cross guarantee between the Company and those controlled entities pursuant to Australian Securities and Investments Commission Class Order 98/1418 dated August 13, 1998 *(refer to notes 41 and 42 to the financial statements for further details).*

Dated this 6th day of December 2007 and signed in accordance with a resolution of the directors:

Michael A Chaney	John M Stewart
Chairman	Group Chief Executive Officer

Independent auditor's report to the members of National Australia Bank Limited

We have audited the accompanying financial report of National Australia Bank Limited (the Company), which comprises the balance sheet as at September 30, 2007, and the income statement, recognised income and expense statement and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled (the Group) at year's end or from time to time during the year.

The Company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB124 "Related Party Disclosures" ("remuneration disclosures"), under the heading "Remuneration report" on pages 15 to 30 of the "Report of the directors", as permitted by Corporations Regulation 2M.6.04.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act* 2001 (Cth). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, that the financial report comprising the Group financial statements and notes complies with International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the Report of the directors.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 "Related Party Disclosures".

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have met the independence requirements of the *Corporations Act* 2001 (Cth). We have given to the directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the Report of the directors. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Independent auditor's report to the members of National Australia Bank Limited

Auditor's opinion

In our opinion:

1 the financial report of National Australia Bank Limited is in accordance with the *Corporations Act* 2001 (Cth), including:

- (i) giving a true and fair view of the financial position of the Company and the Group at September 30, 2007 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations* 2001 (Cth);

2 the Group financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and

3 the remuneration disclosures that are contained on pages 15 to 30 of the Report of the directors comply with Accounting Standard AASB 124 "Related Party Disclosures".

Ernst & Young

SJ Aldersley
Partner

Melbourne, Australia
December 6, 2007

Shareholder information

Twenty largest registered fully paid ordinary shareholders of the Company as at November 15, 2007

	Number of shares	%
HKBA Nominees Limited	243,376,505	15.01
Chase Manhattan Nominees Limited	162,125,486	10.00
National Nominees Limited	160,294,397	9.89
ANZ Nominees Limited, CASH INCOME A/C	57,113,100	3.52
Citicorp Nominees Pty Limited	49,552,981	3.06
Cogent Nominees Pty Limited	28,287,027	1.74
Queensland Investment Corporation	17,300,408	1.07
AMP Group	13,382,423	0.83
National Australia Trustees Limited	12,615,751	0.78
Citicorp Nominees Pty Limited , CFS WSLE GEARED SHR FND A/C	12,293,338	0.76
RBC Dexia Investor Services Australia Nominees Pty Limited, PIPOOLED A/C	9,896,128	0.61
Citicorp Nominees Pty Limited, CFS WSLE IMPUTATION FND A/C	8,605,532	0.53
Australian Reward Investment Alliance	7,768,837	0.48
UBS Nominees Pty Ltd, 116C A/C	7,167,755	0.44
RBC Dexia Investor Services Australia Nominees Pty Limited, BKCUST A/C	7,036,599	0.43
Australian Foundation Investment Company Limited	6,839,612	0.42
Citicorp Nominees Pty Limited, CFS IMPUTATION FUND A/C	5,859,775	0.36
Suncorp Custodian Services Pty Limited, AET	5,228,023	0.32
UBS Wealth Management Australia Nominees Pty Limited	4,935,485	0.30
Cogent Nominees Pty Limited, SMP ACCOUNTS	4,651,070	0.29
	824,330,232	**50.84**

Substantial shareholders

As at November 15, 2007 there were no persons with a substantial shareholding in the Company.

Distribution of fully paid ordinary shareholdings

	Number of Shareholders	% of Holders	Number of Shares	% of Shares
Range (number)				
1 – 1,000	242,722	64.1	96,435,088	6.0
1,001 – 5,000	110,787	29.3	240,317,493	14.8
5,001 – 10,000	15,381	4.1	107,608,780	6.6
10,001 – 100,000	9,169	2.4	192,982,776	11.9
100,001 and over	387	0.1	983,900,158	60.7
	378,446	**100.0**	**1,621,244,295**	**100.0**
Less than marketable parcel of $500	7,944		42,384	

Voting rights

Each ordinary shareholder present at a general meeting (whether in person or by proxy or representative) is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held. Holders of partly paid ordinary shares voting on a poll are entitled to a number of votes based upon the proportion that the amount of capital called and paid up on the shares bears to the total issue price of the shares.

Shareholder information

Twenty largest registered National Income Securities (NIS) holders as at November 15, 2007

	Number of securities	%
J P Morgan Nominees Australia Limited	1,728,174	8.64
HSBC Custody Nominees (Australia) Limited	810,200	4.05
National Nominees Limited	613,163	3.07
ANZ Nominees Limited, CASH INCOME A/C	543,540	2.72
UBS Wealth Management Australia Nominees Pty Limited	463,891	2.32
RBC Dexia Investor Services Australia Nominees Pty Limited, MLCI A/C	424,881	2.12
Citicorp Nominees Pty Limited	173,285	0.87
Merrill Lynch (Australia) Nominees Pty Limited	167,082	0.84
MLEQ Nominees Pty Limited, SETTLE1 A/C	158,000	0.79
Questor Financial Services Limited, TPS RF A/C	142,835	0.71
RBC Dexia Investor Services Australia Nominees Pty Limited, GSENIP A/C	138,023	0.69
Australian Executor Trustees Limited, NO. 1 ACCOUNT	135,571	0.68
Invia Custodian Pty Limited, BEST SUPERANNUATION P/L A/C	100,000	0.50
Private Nominees Limited	89,866	0.45
Cogent Nominees Pty Limited	85,113	0.43
Cambooya Pty Limited	83,490	0.42
Netwealth Investments Limited, WRAP SERVICES A/C	78,050	0.39
UBS Nominees Pty Limited, TP00014 15 A/C	71,213	0.36
Mr Anthony Phillip Davidson	70,000	0.35
Elise Nominees Pty Limited	68,506	0.34
	6,144,883	**30.74**

Distribution of NIS holdings

	Number of Shareholders	% of Holders	Number of Shares	% of Shares
Range (number)				
1 – 1,000	35,766	95.0	7,408,228	37.0
1,001 – 5,000	1,607	4.3	3,263,703	16.3
5,001 – 10,000	136	0.4	981,744	4.9
10,001 – 100,000	109	0.3	2,847,680	14.3
100,001 and over	12	0.0	5,498,645	27.5
	37,630	**100.0**	**20,000,000**	**100.0**
Less than marketable parcel of $500	15		42	

Voting rights

Holders of the NIS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per NIS preference share on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the NIS preference shares.

Share buy back

The Group successfully completed a $1,200 million on-market share buy back during the year. Overall 29,314,511 shares were bought back at an average price of $40.94.

Shareholder information

Chairman
Mr Michael A Chaney
AO, BSc, MBA, Hon. LLD *W. Aust*,
FAIM, FAICD

Group Chief Executive
Mr John M Stewart
BA, ACII, FCIB

Finance Director and Group Chief Financial Officer
Mr Michael J Ullmer
BSc (Maths) (Hons), FCA, SF Fin

Senior executive appointments

As announced to the ASX on October 4, 2007 the following appointments will take effect from 10 December 2007:

- Michael Ullmer appointed Deputy Group Chief Executive Officer (currently Finance Director and Group Chief Financial Officer); and
- Mark Joiner appointed Group Chief Financial Officer (currently Group Executive General Manager, Development and New Business).

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34th Floor
500 Bourke Street
Melbourne Victoria 3000
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Auditor

Ernst & Young
8 Exhibition Street
Melbourne Victoria 3000
Australia
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Fax: +61 3 8650 7777

Company Secretary

Ms Michaela J Healey
LLB, FCIS

Shareholders' centre internet service

The Group's website at www.nabgroup.com has a dedicated separate section where shareholders can gain access to a wide range of information, including copies of recent announcements, annual financial reports and useful forms from the Share Registry, including change of address forms.
Email: web.queries@computershare.com.au

Shareholders' centre information line

There is a convenient 24 hours a day, 7 days a week automated service (Australia only). To obtain the current balance of your ordinary shareholding and relevant dividend payment details, telephone 1300 367 647 (Australia) or +61 3 9415 4299 (outside Australia).

Contact details

These services are secured to protect your interests. In all communications with the Share Registry, please ensure you quote your security holder reference number (SRN), or in case of broker sponsored shareholders, your holder identification number (HIN).

Principal share register

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
Australia

Postal address:
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Melbourne Victoria 3001
Australia

Local call: 1300 367 647
Fax: (03) 9473 2500

Telephone and fax (outside Australia):
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Email: web.queries@computershare.com.au

UK share register

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United Kingdom

Tel: (0870) 703 0197
Fax: (0870) 703 6101

Website: www.nabgroup.com

United States ADR depositary, Transfer agent and registrar

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Investor Services
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United States of America

US Toll Free
Tel : 1-888-269-2377
Tel : +1 212 815 3700 (outside US)

Email: shareowners@bankofny.com
Website: www.adrbny.com

Shareholder information

Official quotation

Fully paid ordinary shares of the Company are quoted on the following stock exchanges:

- Australian Securities Exchange; and
- Stock Exchange, New Zealand.

The Group has also issued:

- National Income Securities which are quoted on the stock market of the Australian Securities Exchange;
- Trust Preferred Securities, National Capital Instruments, Medium Term Notes and Mortgage Backed Securities which are quoted on the Luxembourg Stock Exchange;
- Trust Preferred Securities II which are quoted on the stock market of the Channel Islands Stock Exchange;
- Undated Subordinated Floating Rate Notes which are listed on the London Stock Exchange;
- Medium Term Notes which are listed on the Swiss Stock Exchange;
- Medium Term Notes and Mortgage Backed Securities which are listed on the Australian Securities Exchange; and
- Subordinated Bonds which are listed on the Stock Exchange, New Zealand.

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Glossary

Term used	Brief description
AASB	Australian Accounting Standards Board
ADR	American depositary receipt
AIFRS	Australian equivalents to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Cash earnings	A key performance measure and financial target used by the Group. It does not refer to any amount represented on a Cash Flow Statement.
Company	National Australia Bank Limited
Group	National Australia Bank Limited and its controlled entities
NAB	National Australia Bank Limited
nabCapital	Formerly Institutional Markets & Services (IMS)
NZ	New Zealand
SEC	Securities and Exchange Commission
UK	United Kingdom
US	United States of America

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principal establishments

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