PROOFPOINT INC
Form 4
September 10, 2015

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Hahn Eric

(Last) (First) (Middle)

C/O PROOFPOINT, INC., 892 ROSS DRIVE

(Street)

SUNNYVALE, CA 94089

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
PROOFPOINT INC [PFPT]

3. Date of Earliest Transaction (Month/Day/Year)
09/08/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) __X__ Other (specify below)
Chairman

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/08/2015		S (1)		7,759 (2)	D	$ 56.6718 (3)	165,405	D	
Common Stock	09/08/2015		S (1)		7,241 (2)	D	$ 57.4005 (4)	158,164	D	
Common Stock								10,000	I	By Trust 1 (5)
Common Stock								10,000	I	By Trust 2 (6)
								213,718	I	

Common Stock		By Family Trust (7)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Hahn Eric C/O PROOFPOINT, INC. 892 ROSS DRIVE SUNNYVALE, CA 94089	X		Chairman	

Signatures

/s/ Eric Hahn By Michael Yang, Attorney-In-Fact	09/10/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) These transactions were effected pursuant to a 10b5-1 trading plan adopted by the reporting person on November 7, 2014.

(2) Represents the aggregate of sales effected on the same day at different prices.

(3) Represents the weighted average sales price per share. The shares sold at prices ranging from $56.26 to $57.25 per share. Full information regarding the number of shares sold at each price shall be provided upon request to the staff of the U.S. Securities and Exchange Commission, the Issuer, or a security holder of the Issuer.

(4) Represents the weighted average sales price per share. The shares sold at prices ranging from $57.26 to $57.57 per share. Full information regarding the number of shares sold at each price shall be provided upon request to the staff of the U.S. Securities and Exchange Commission, the Issuer, or a security holder of the Issuer.

(5) Shares directly held by the Evan Matthew Hahn Trust, U/A DTD 3/14/1996, of which the Reporting Person is a trustee and may be deemed to share voting and dispositive power over these shares.

(6) Shares directly held by the Jeremy Stephen Hahn Trust, U/A DTD 10/20/1999, of which the Reporting Person is a trustee and may be deemed to share voting and dispositive power over these shares.

(7) Shares directly held by the Hahn Family Trust dated 10/20/1999, of which the Reporting Person is a trustee and may be deemed to share voting and dispositive power over these shares.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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342

223

191

Electricity, water and rates

71

76

24

27

Maintenance and repairs

Explanation of Responses:

66

71

28

26

Other expenses

41

50

27

33

Total occupancy-related expenses

523

Explanation of Responses:

539

302

277

General expenses

Fee and commission expense

197

176

126

121

Loss on disposal of property, plant and equipment and other assets

22

11

9

1

Depreciation and amortisation of property, plant and equipment

246

245

131

129

Amortisation of intangible assets

188

173

119

113

Depreciation on leased vehicle assets

339

545

59

Explanation of Responses:

52

Operating lease rental expense

89

103

74

85

Charge to provide for operational risk event losses

120

189

95

159

Computer equipment and software

241

244

157

149

Professional fees

427

450

283

240

Communications, postage and stationery

356

	399
	167
	166
Advertising and marketing	
	221
	228
	172
	168
Travel	
	82
	74
	43

30

Insurance

29

35

7

9

Data communication and processing charges

93

96

49

50

Other expenses

Explanation of Responses:

546

661

49

45

3,196

3,629

1,540

1,517

Impairment losses/(reversal) recognised

Explanation of Responses:

Property, plant and equipment

(10

)

15

Goodwill and other intangible assets

1

5

Value of shares in controlled entities

6

16

(9

)

20

6

16

Total general expenses

3,187

3,649

1,546

1,533

Total charge to provide for doubtful debts

606

534

262

294

137

Explanation of Responses:

	Note	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
Significant expenses					
Restructuring costs	5(a)		793		499
Foreign currency options trading losses reversal	5(a)		(34)		(34)
Reversal of prior years restructuring provision	5(a)		(11)		(6)
Total significant expenses			748		459

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(1) As part of the transition to AIFRS, the Group has reviewed the classification of items within other expenses. As a result, certain items or transactions have been classified to a more descriptive line item. There have been no changes at the total other expenses level other than the AIFRS measurement adjustments set out in note 1B.

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

On May 8, 2006, the Group sold to AXA Asia Pacific Holdings its life insurance and related wealth management companies in Asia. The assets and liabilities of these entities no longer form part of the Group. The loss 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)

(a) Individually significant expenses in net profit

Restructuring costs

During the 2005 year, the Group recognised restructuring expenses and provisions amounting to $793 million ($576 million after tax). These costs are expected to be recovered through ongoing efficiency and productivity enhancements, streamlined functions and ongoing cost reductions. The restructuring initiatives comprised a fundamental reorganisation of the management and organisational structure of the Group to a regional model, including the integration of the retail banking, corporate banking and wealth management businesses in Australia, the streamlining of operations and reconfiguration of distribution networks in the United Kingdom, the refocusing of the nabCapital business, as well as other streamlining and business efficiency programs, property rationalisation and decommissioning systems in all business segments. The details of this amount are set out as follows:

	Personnel $m	Occupancy $m	Other $m	Total $m
Total restructuring costs	439	137	217	793

In addition, during the 2002 year, the Group recognised significant restructuring costs of $580 million resulting from the Positioning for Growth initiatives. In 2005, excess provisions totalling $11 million ($7 million after tax) were written back to the income statement.

Foreign currency options trading losses and reversal of residual risk provision

In January 2004, the Company announced that it had identified losses relating to unauthorised trading in foreign currency options and had established a structured process to review and resolve all issues arising from this matter.

The Company recognised a total loss of $360 million before tax, or $252 million after tax, arising from the unauthorised foreign currency options trading. This total loss consisted of losses arising from the removal of fictitious trades from the foreign currency options portfolio of $185 million and a further loss of $175 million arising from a risk evaluation and complete mark-to-market revaluation of the foreign currency options portfolio in January 2004. Included within the total loss of $360 million was a valuation allowance for long-dated and illiquid trading derivatives in other portfolios of $26 million as at September 30, 2004.

In the 2005 year, following a detailed review of the residual risk in the remaining portfolio, $34 million ($24 million after tax) was written back to the income statement.

6 Income tax expense

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Total income tax expense				
Current tax	**2,037**	1,991	**1,120**	938
Deferred tax	**97**	(177)	**(117)**	(65)
Total income tax expense	**2,134**	1,814	**1,003**	873
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				
Australia	**4,902**	3,759	**3,943**	5,021
Overseas	**2,373**	2,657	**147**	105
Deduct profit before income tax expense attributable to the life insurance statutory funds and their controlled trusts *(1)*	**(1,537)**	(1,650)		
Total profit excluding that attributable to the statutory funds of the life insurance business, before income tax expense	**5,738**	4,766	**4,090**	5,126
Prima facie income tax at 30%	**1,721**	1,430	**1,227**	1,538
Add/(deduct): Tax effect of amounts which are not deductible/(assessable)				
Dividend income adjustments	**(12)**	(29)	**(240)**	(878)
Assessable foreign income	**2**	12	**5**	3
Non-allowable depreciation on buildings	**6**	7	**1**	1
Deferred tax assets not recognised/(recognised)	**3**	(10)		15
Under/(over) provision in prior years	**(8)**	(29)	**(9)**	(7)
Foreign tax rate differences	**34**	36	**16**	18
Non-assessable branch income	**(46)**	(44)	**(46)**	(44)
Profit on sale of controlled entities	**(19)**	(372)		12
Settlement of tax dispute on TrUEPrS[SM] *(2)*		97		97
Elimination of treasury shares	**30**	26		
Non-allowable expenses - exchangeable capital units	**27**			
Interest expense on exchangeable capital units	**20**	31	**20**	31
Other	**(45)**	19	**29**	87
Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business	**1,713**	1,174	**1,003**	873
Income tax expense attributable to the statutory funds of the life insurance business *(1)*	**421**	640		
Total income tax expense *(3) (4)*	**2,134**	1,814	**1,003**	873

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(1) The income tax expense attributable to the life insurance statutory funds and their controlled trusts has been determined after segregating the life insurance business into various classes of business and then applying, when appropriate, different tax treatments to these classes of business (refer to note 1A(kk)).

(2) In November 2005, the Company announced that it had reached an agreement with the Australian Taxation Office (ATO) in respect of a settlement of amounts in dispute in relation to the TrUEPrS[SM] capital raising transaction. An amount of $97 million was recognised as a significant tax item for the 2005 year.

(3) In 2006, income tax expense on profit includes $96 million income tax expense attributable to the significant pensions revenue.

(4) In 2005, income tax expense on profit includes the tax effect on significant items and comprises $34 million income tax expense attributable to the profit on sale of National Europe Holdings (Ireland) Limited, an income tax benefit of $217 million attributable to restructuring expenses and provisions recognised, an income tax expense of $10 million attributable to the reversal of a provision in relation to the foreign currency options trading losses recorded in the 2004 year, and an income tax expense of $4 million attributable to the reversal of a restructuring provision recognised in the 2002 year.

The Company is the head entity in the tax-consolidated group comprising the company and all of its Australian wholly owned controlled entities.

7 Dividends and distributions

	Amount per share cents	Total amount $m	Franked amount per share %
Dividends recognised by the Company for the years shown below at September 30:			
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**	
2005			
Final 2004 ordinary	83	1,289	100
Interim 2005 ordinary	83	1,297	80
Deduct: Bonus shares in lieu of dividend	n/a	(132)	n/a
Total dividends paid		2,454	
Franked dividends declared or paid during the year or declared after year end were franked at a tax rate of 30%.			
Proposed final dividend			
On November 3, 2006, the directors declared the following dividend:			
Final 2006 ordinary	**84**	**1,352**	**90**

The final 2006 ordinary dividend is payable on December 12, 2006. The financial effect of this dividend has not been brought to account in the financial statements for the year ended September 30, 2006 and will be recognised in subsequent financial reports.

Australian franking credits

The franking credits available to the Group at September 30, 2006, 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 $525 million (2005: $455 million). Franking credits to be utilised as a result of the payment of the proposed final dividend are $525 million (2005: $455 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$0.09 per share will be attached to the final 2006 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.

	Group		Company	
	2006	**2005**	**2006**	**2005**
	$m	**$m**	**$m**	**$m**
Distributions on other equity instruments				
National Income Securities	**139**	136	**139**	136
Trust Preferred Securities	**56**	54		
Trust Preferred Securities II	**59**	14		
Total distributions on other equity instruments	**254**	204	**139**	136

8 Earnings per share

	Group			
	2006		2005	
	Basic	**Diluted**	**Basic**	**Diluted**
Earnings ($m)				
Net profit attributable to members of the Company	**4,392**	**4,392**	3,992	3,992
Distributions on other equity instruments	**(254)**	**(254)**	(204)	(204)
Potential dilutive adjustments				
Interest expense on exchangeable capital units (after-tax)				106
Adjusted earnings	**4,138**	**4,138**	3,788	3,894
Weighted average ordinary shares (No. 000)				
Weighted average ordinary shares	**1,599,919**	**1,599,919**	1,559,118	1,559,118
Treasury shares	**(24,315)**	**(24,315)**	(21,033)	(21,033)
Potential dilutive ordinary shares				
Performance options and performance rights *(1)*		**3,673**		2,047
Partly paid ordinary shares *(1)*		**288**		321
Staff share allocation and ownership plans *(1)*		**1,113**		1,484
Exchangeable capital units *(2)*				64,911
Total weighted average ordinary shares *(3)*	**1,575,604**	**1,580,678**	1,538,085	1,606,848
Earnings per share (cents)	**262.6**	**261.8**	246.3	242.3

(1) Refer to note 41 for further information.

(2) Refer to notes 33 and 37 for further information.

(3) Included within total weighted average ordinary shares are 32,320,000 (2005: 3,619,000) converted, lapsed or cancelled potential ordinary shares included within diluted earnings per share.

There were 17,674,448 fully paid ordinary shares of the Company issued since the end of the year as a result of conversions of exchangeable capital units, for a total consideration of $340,763,357. Other than these issues, there has been no material conversion to, calls of, or subscriptions for ordinary shares, or issues of potential ordinary shares since September 30, 2006 and before the completion of this financial report.

During the year ended September 30, 2006, there were 38,429,000 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 2006 year. The exchangeable capital units could potentially dilute earnings per share in future periods.

9 Cash and liquid assets

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Australia				
Coins, notes and cash at bank	**1,244**	1,253	**732**	739
Securities purchased under agreements to resell	**1,469**	701	**1,469**	701
Other (including bills receivable and remittances in transit)	**400**	240	**(276)**	(202)
	3,113	2,194	**1,925**	1,238
Overseas				
Coins, notes and cash at bank	**5,332**	2,728	**239**	22
Money at short call		560		
Securities purchased under agreements to resell	**4,246**	2,736	**4,057**	2,736
Other (including bills receivable and remittances in transit)	**77**	223	**(308)**	(662)
	9,655	6,247	**3,988**	2,096
Total cash and liquid assets	**12,768**	8,441	**5,913**	3,334

Included within cash and liquid assets are cash and liquid assets within the Group s life insurance business statutory funds of $402 million (2005: $468 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	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Australia				
Interest earning				
Central banks and other regulatory authorities	**1,001**	496	**1,001**	490
Other banks	**9,398**	3,283	**9,398**	3,241
Non-interest earning				
Other banks	**14**	38	**14**	15
	10,413	3,817	**10,413**	3,746
Overseas				
Interest earning				
Central banks and other regulatory authorities	**2,739**	174	**59**	67
Other banks	**11,159**	11,535	**9,045**	12,344
Non-interest earning				
Central banks and other regulatory authorities		2		1
Other banks	**61**	67	**48**	67
	13,959	11,778	**9,152**	12,479
Total due from other banks	**24,372**	15,595	**19,565**	16,225

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 conservative 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 48.

From October 1, 2005, the default classification for derivative financial instruments is trading, unless designated in a hedge relationship and in compliance with the detailed hedge accounting requirements of AASB 139. Therefore, certain derivatives may be economically hedging exposures of the Group, such as the credit risk on assets held, but are classified within trading due to not meeting the hedge accounting requirements of AASB 139.

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 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 the application of regression analysis 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 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 38.*

The disclosure of financial instruments as at September 30, 2005, excluding the impact of AASB 132 and AASB 139 can be found in note 58.

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

	Group 2006 $m	**Company 2006 $m**
Trading derivatives		
Assets	13,384	12,311
Liabilities	12,008	11,002
Hedging derivatives		
Assets	480	383
Liabilities	333	179

Trading derivative financial instruments

	Notional principal 2006 $m	Group Fair value assets 2006 $m	Fair value liabilities 2006 $m
Foreign exchange rate-related contracts			
Spot and forward contracts to purchase foreign exchange	353,441	3,211	3,024
Cross currency swaps	141,389	3,641	2,070
Options/swaptions purchased	12,845	264	
Options/swaptions written	13,339		267
Total foreign exchange rate-related contracts	521,014	7,116	5,361
Interest rate-related contracts			
Forward rate agreements	153,325	15	13
Swaps	900,882	4,921	5,361
Futures	502,388	68	28
Options/swaptions purchased	22,938	119	43
Options/swaptions written	80,862	252	305
Total interest rate-related contracts	1,660,395	5,375	5,750
Credit derivatives	24,945	61	77
Commodity derivatives	4,878	550	539
Other derivatives	4,115	282	281
Total derivatives held for trading	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	53,306	196	74
Total foreign exchange rate-related contracts	53,306	196	74
Interest rate-related contracts			
Swaps	25,536	105	176
Total interest rate-related contracts	25,536	105	176
Total derivatives held for hedging - fair value hedges	78,842	301	250
Derivatives held for hedging - cash flow hedges			
Interest rate-related contracts			
Forward rate agreements	1,500		
Swaps	58,009	179	83
Total interest rate-related contracts	59,509	179	83
Total derivatives held for hedging - cash flow hedges	59,509	179	83
Total hedging derivative financial instruments	138,351	480	333

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:

0 to 1	1 to 2	2 to 3	3 to 4	4 to 5	Greater than

	year $m	year(s) $m	years $m	years $m	years $m	5 years $m	Total $m
Forecast receivable cash flows *(1)*	995	669	504	246	142	103	2,659
Forecast payable cash flows *(1)*	2,225	1,522	954	490	222	34	5,447

(1) *Refer to the forward-looking statements section set out on page 4.*

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12 Trading securities

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
Listed Australia				
Australian Commonwealth Government bonds and securities	**607**	57	**607**	57
Securities of Australian and semi-government authorities	**2,104**	1,520	**2,104**	1,520
Private corporations/other financial institutions certificates of deposit	**4,674**	3,141	**4,674**	3,141
Private corporations/other financial institutions bills	**470**	6,745	**470**	6,745
Private corporations/other financial institutions bonds	**473**	521	**473**	521
Private corporations/other financial institutions floating rate notes	**1,699**	725	**1,699**	725
Private corporations/other financial institutions promissory notes		105		105
Other securities	**581**	176	**581**	176
	10,608	12,990	**10,608**	12,990
Listed Overseas *(1)*				
Securities of Australian and semi-government bonds and securities	**580**		**580**	
Private corporations/other financial institutions certificates of deposit	**467**	503		
Private corporations/other financial institutions bonds	**910**	768	**850**	758
Securities of or guaranteed by New Zealand Government	**43**			
Other government bonds and securities	**547**	114	**545**	114
Private corporations/other financial institutions floating rate notes	**55**		**54**	
Private corporations/other financial institutions promissory notes	**29**	307		
Other securities	**394**	213	**129**	
	3,025	1,905	**2,158**	872
Total listed trading securities	**13,633**	14,895	**12,766**	13,862
Unlisted Australia				
Other securities		20		
		20		
Unlisted Overseas *(1)*				
Private corporations/other financial institutions certificates of deposit	**43**	78	**43**	78
Private corporations/other financial institutions floating rate notes	**64**	67	**64**	67
Private corporations/other financial institutions commercial paper		94		94
	107	239	**107**	239
Total unlisted trading securities	**107**	259	**107**	239
Total trading securities *(2)*	**13,740**	15,154	**12,873**	14,101

(1) 2005 comparatives for the Group include reclassifications from Unlisted - Overseas of $983 million to Listed - Overseas .

(2) The amount that best represents the maximum credit exposure at reporting date is the carrying value of these assets.

13 Investments - available for sale

		Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
Listed Australia					
Private corporations/other financial institutions	bonds	**61**	61	**61**	61
Private corporations/other financial institutions	floating rate notes	**72**	143	**72**	143
Other securities			4		4
		133	208	**133**	208
Listed Overseas					
Securities of or guaranteed by UK government		**3**	3		
Private corporations/other financial institutions	certificates of deposit/bills	**254**	1,720	**254**	1,556
Private corporations/other financial institutions	bonds		437		
Private corporations/other financial institutions	commercial paper	**143**		**143**	
Private corporations/other financial institutions	medium-term notes	**503**			
Private corporations/other financial institutions	floating rate notes	**153**		**153**	
Other government treasury notes		**9**	8	**9**	8
Other securities		**22**	22		
		1,087	2,190	**559**	1,564
Total listed investments - available for sale		**1,220**	2,398	**692**	1,772
Unlisted Overseas					
Private corporations/other financial institutions	certificates of deposit/bills	**108**	80	**108**	80
Private corporations/other financial institutions	commercial paper		600		600
Private corporations/other financial institutions	medium-term notes		79		79
Private corporations/other financial institutions	floating rate notes	**165**	74	**165**	74
Other securities			629		629
		273	1,462	**273**	1,462
Total unlisted investments - available for sale		**273**	1,462	**273**	1,462
Total investments - available for sale		**1,493**	3,860	**965**	3,234
Reconciliation of movement in investments - available for sale					
Balance at beginning of year		**3,860**	4,610	**3,234**	3,978
AIFRS transition adjustment		**45**			
Restated opening balance		**3,905**	4,610	**3,234**	3,978
Purchases		**18,704**	4,465	**18,199**	3,815
Proceeds					
Disposals		**(1,354)**	(1,384)	**(1,306)**	(784)
Maturities		**(19,877)**	(3,560)	**(19,264)**	(3,555)
Foreign currency translation adjustments		**115**	(271)	**102**	(220)
Balance at end of year		**1,493**	3,860	**965**	3,234

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Maturities

The following table analyses the maturity and weighted average yield of the Group s holdings of investments - available for sale at September 30, 2006:

	$m	0 to 1 year yield pa	$m	1 to 5 year(s) yield pa	$m	5 to 10 years yield pa	$m	Over 10 years yield pa
Australia								
Private corporations/other financial institutions bonds	41	5.5%	20	6.1%				
Private corporations/other financial institutions floating rate notes	7	6.6%	65	6.4%				
	48		85					
Overseas								
Securities of or guaranteed by UK government	1		2					
Private corporations/other financial institutions certificates of deposit/bills	362	5.3%						
Other government treasury notes	9	3.4%						
Private corporations/other financial institutions commercial paper	143							
Private corporations/other financial institutions medium-term notes	1		502	5.1%				
Private corporations/other financial institutions floating rate notes	108	5.2%	210	4.7%				
Other securities			22	6.3%				
	624		736					
Total maturities at carrying value	672		821					

14 Investments - held to maturity

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
Listed Australia				
Other securities	**15**	20	**15**	20
	15	20	**15**	20
Listed Overseas *(1)*				
Securities of or guaranteed by UK government	**1**	1		
Private corporations/other financial institutions certificates of deposit/bills	**173**	1,983	**173**	1,983
Private corporations/other financial institutions bonds	**520**	455	**520**	250
Other government treasury notes	**4**	43		38
Private corporations/other financial institutions promissory notes	**44**	45		
Securities of or guaranteed by New Zealand Government		971		
Other securities	**3**			
	745	3,498	**693**	2,271
Total listed investments - held to maturity	**760**	3,518	**708**	2,291
Unlisted Australia				
Private corporations/other financial institutions bonds	**252**			
Private corporations/other financial institutions certificates of deposit/bills	**201**			
Other securities		398		
	453	398		
Unlisted Overseas *(1)*				
Private corporations/other financial institutions bonds	**105**	3,524	**105**	108
Private corporations/other financial institutions floating rate notes	**7**	21	**7**	21
Other government treasury notes	**59**	5	**59**	5
Other securities	**4**		**4**	
	175	3,550	**175**	134
Total unlisted investments - held to maturity	**628**	3,948	**175**	134
Total investments - held to maturity	**1,388**	7,466	**883**	2,425
Reconciliation of movement in investments - held to maturity				
Balance at beginning of year	**7,466**	11,513	**2,425**	5,383
AIFRS transition adjustment	**(4,389)**			
Restated opening balance	**3,077**	11,513	**2,425**	5,383
Purchases	**16,856**	27,155	**16,426**	24,199
Proceeds:				
Disposals	**(11)**	(126)	**(11)**	(126)
Maturities	**(17,707)**	(30,058)	**(17,486)**	(26,442)
Foreign currency translation adjustments	**(827)**	(1,018)	**(471)**	(589)
Balance at end of year	**1,388**	7,466	**883**	2,425

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(1) *2005 comparatives for the Group include reclassifications from Unlisted - Overseas of $1,021 million to Listed - Overseas .*

Market value information

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
Listed Australia				
Other securities	**15**	20	**15**	20
	15	20	**15**	20
Listed Overseas				
Securities of or guaranteed by UK government	**1**	1		
Private corporations/other financial institutions certificates of deposit/bills	**173**	1,977	**173**	1,977
Private corporations/other financial institutions bonds	**515**	442	**515**	241
Other government treasury notes	**4**	43		38
Private corporations/other financial institutions promissory notes	**44**	45		
Securities of or guaranteed by New Zealand Government		971		
Other securities	**3**			
	740	3,479	**688**	2,256
Total listed investments - held to maturity at market value	**755**	3,499	**703**	2,276
Unlisted Australia				
Private corporations/other financial institutions bonds	**252**			
Private corporations/other financial institutions certificates of deposit/bills	**201**			
Other securities		398		
	453	398		
Unlisted Overseas				
Private corporations/other financial institutions bonds	**105**	3,524	**105**	108
Private corporations/other financial institutions floating rate notes	**7**	21	**7**	21
Other government treasury notes	**59**	5	**59**	5
Other securities	**4**		**4**	
	175	3,550	**175**	134
Total unlisted investments - held to maturity at market value	**628**	3,948	**175**	134
Total investments - held to maturity at market value	**1,383**	7,447	**878**	2,410

Maturities

The following table analyses the maturity and weighted average yield of the Group s holdings of investments - held to maturity at September 30, 2006:

	$m	0 to 1 year yield pa	$m	1 to 5 year(s) yield pa	$m	5 to 10 years yield pa	$m	Over 10 years yield pa
Australia								
Private corporations/other financial institutions certificates of deposit/bills	67	5.1%	134	5.1%				
Private corporations/other financial institutions bonds			252	7.5%				
Other securities	7	6.6%	8	6.4%				
	74		394					
Overseas								
Securities of or guaranteed by UK government	1							
	173	5.4%						

Private corporations/other financial institutions certificates of deposit/bills							
Private corporations/other financial institutions bonds			235	1.8%	390	6.8%	
Other government treasury notes	63	3.2%					
Private corporations/other financial institutions floating rate notes	7	0.8%					
Private corporations/other financial institutions promissory notes	44	7.7%					
Other securities	3						4
	291		235		390		4
Total maturities at carrying value	365		629		390		4

15 Investments relating to life insurance business *(1)*

	Group		Company	
	2006 **$m**	**2005** **$m**	**2006** **$m**	**2005** **$m**
Equity security investments				
Direct	**1,651**	1,612		
Indirect	**33,185**	30,328		
	34,836	31,940		
Debt security investments				
Direct	**2,561**	3,129		
Indirect	**13,457**	11,461		
	16,018	14,590		
Units held in property trusts				
Direct	**37**	46		
Indirect	**3,893**	3,207		
	3,930	3,253		
Total investments relating to life insurance business	**54,784**	49,783		

(1) In 2006, investments held indirectly are disclosed on a look through basis to the underlying nature of the trusts. The 2005 comparatives have been reclassified on the same basis.

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.

Included within investments relating to life insurance business are investments held in the statutory funds of the Group s Australian life insurance business which can only be used within the restrictions imposed under the *Life Insurance Act* 1995 (Cth). The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of the fund, to acquire investments to further the business of the fund or as distributions when solvency and capital adequacy requirements are met. Participating policyholders can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements is met.

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

16 Other financial assets at fair value

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
Australia				
Other securities at fair value	**3,382**			
Other financial assets at fair value	**795**		**780**	
	4,177		**780**	
Overseas				
Loans *(1)*	**16,774**			
Other securities at fair value	**547**			
Other financial assets at fair value	**625**			
	17,946			
Total other financial assets at fair value *(2)*	**22,123**		**780**	

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(1) Loans at fair value represents other term lending loans. This amount includes a fair value adjustment of $362 million and a credit risk adjustment of $81 million.

(2) This includes $202 million of fair value adjustments being derived from valuation techniques rather than directly from, or based upon, observable market data.

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.

The table below analyses other financial assets at fair value by geographical location. This is based on the geographical location of the office in which assets are booked.

	Group 2006 $m
Australia	4,177
Europe	5,331
New Zealand	12,035
United States	580
Total other financial assets at fair value	22,123

The diversification and size of the Group is such that its lending is widely spread both geographically and in terms of the types of industries served. The following table shows year-end detail of loans at fair value, maturity distribution and concentration of credit risk by industry with the maximum credit risk represented by the carrying values, as at September 30, 2006. All loans at fair value are subject to fixed rates of interest.

	Group			
	0 to 1 year $m	1 to 5 year(s) $m	Over 5 years $m	Total $m
Overseas				
Government and public authorities	189	170	290	649
Agriculture, forestry, fishing and mining	1,207	1,554	218	2,979
Financial, investment and insurance	1,016	81	626	1,723
Real estate construction	16	25	11	52
Manufacturing	901	233	78	1,212
Instalment loans to individuals and other personal lending (including credit cards)	52	202	128	382
Other commercial and industrial	4,841	3,075	1,861	9,777
Total loans at fair value	8,222	5,340	3,212	16,774

17 Loans and advances

		Group		Company	
		2006 $m	2005 $m	2006 $m	2005 $m
Australia					
Overdrafts		**5,517**	5,036	**5,517**	5,036
Credit card outstandings		**4,647**	4,194	**4,647**	4,194
Asset and lease financing		**11,184**	10,102	**10,862**	9,418
Housing loans		**129,423**	117,718	**129,238**	115,694
Other term lending		**39,232**	32,824	**38,799**	32,712
Other lending		**3,874**	6,248	**3,348**	2,368
		193,877	176,122	**192,411**	169,422
Overseas					
Overdrafts		**9,953**	7,266		123
Credit card outstandings		**2,674**	2,575		
Asset and lease financing		**5,769**	6,111	**12**	17
Housing loans		**42,339**	34,062	**187**	117
Other term lending		**32,752**	41,631	**9,382**	7,964
Other lending		**825**	1,431	**404**	845
		94,312	93,076	**9,985**	9,066
Total gross loans and advances		**288,189**	269,198	**202,396**	178,488
Deduct:	Unearned income	**(2,216)**	(2,106)	**(1,572)**	(1,278)
	Deferred net fee income	**(175)**		**(58)**	
	Provision for doubtful debts *(refer to note 18)*	**(2,021)**	(2,418)	**(1,251)**	(1,581)
Total net loans and advances		**283,777**	264,674	**199,515**	175,629

The Group and Company have sold or transferred $4,771 million (2005: $5,912 million) respectively 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 and Company remain exposed to the risk and rewards of ownership on an ongoing basis. The Group and Company continue to be exposed primarily to the liquidity risk, 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.

The diversification and size of the Group is such that its lending is widely spread both geographically and in terms of the types of industries served. In accordance with US SEC guidelines, the following table shows comparative year-end detail of the loan portfolio for the last two years ended September 30. The table also demonstrates the concentration of credit risk by industry with the maximum credit risk represented by the carrying values less provision for doubtful debts.

	Group	
	2006 $m	2005 $m
Australia		
Government and public authorities	**640**	612
Agriculture, forestry, fishing and mining	**6,278**	5,930
Financial, investment and insurance	**6,092**	5,236
Real estate - construction	**1,188**	747
Manufacturing	**3,736**	3,596
Real estate - mortgage	**129,423**	117,718
Instalment loans to individuals and other personal lending (including credit cards)	**8,236**	7,047

Asset and lease financing	**11,184**	10,102
Other commercial and industrial *(1)*	**27,100**	25,134
	193,877	176,122

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		Group	
		2006	**2005**
		$m	**$m**
Overseas			
Government and public authorities		**231**	335
Agriculture, forestry, fishing and mining		**4,806**	6,122
Financial, investment and insurance		**3,518**	6,107
Real estate - construction		**2,115**	2,138
Manufacturing		**3,165**	5,394
Real estate - mortgage		**42,339**	34,062
Instalment loans to individuals and other personal lending (including credit cards)		**8,847**	10,406
Asset and lease financing		**5,769**	6,111
Other commercial and industrial *(1)*		**23,522**	22,401
		94,312	93,076
Total gross loans and advances		**288,189**	269,198
Deduct:	Unearned income	**(2,216)**	(2,106)
	Deferred net fee income	**(175)**	
	Provision for doubtful debts *(refer to note 18)*	**(2,021)**	(2,418)
Total net loans and advances		**283,777**	264,674

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(1) *At September 30, 2006, there were no concentrations within Other commercial and industrial loans exceeding 10% of total loans and advances.*

Concentrations of credit risk by geographical location are based on the geographical location of the office in which the loans or advances are booked. The amounts shown are net of unearned income and provision for doubtful debts:

	Group	
	2006	**2005**
	$m	**$m**
Australia	**191,134**	173,350
Europe	**63,503**	53,029
New Zealand	**25,407**	34,418
United States	**1,793**	2,200
Asia	**1,940**	1,677
Total net loans and advances	**283,777**	264,674

The following tables show the maturity distribution of loans and advances to customers and the nature of the interest rate applicable to such loans and advances for the Group as at September 30, 2006:

	Group			
	0 to 1 year (1)	**1 to 5 year(s)**	**Over 5 years**	**Total**
	$m	**$m**	**$m**	**$m**
Maturity distribution of loans and advances				
Australia				
Government and public authorities	128	228	284	640
Agriculture, forestry, fishing and mining	2,778	2,792	708	6,278
Financial, investment and insurance	3,354	2,350	388	6,092
Real estate construction	805	277	106	1,188

Manufacturing	1,188	2,046	502	3,736
Real estate mortgage	24,345	11,208	93,870	129,423
Instalment loans to individuals and other personal lending (including credit cards)	6,224	742	1,270	8,236
Asset and lease financing	3,864	7,114	206	11,184
Other commercial and industrial	8,807	9,959	8,334	27,100
	51,493	36,716	105,668	193,877

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	Group			
	0 to 1 year (1) $m	1 to 5 year(s) $m	Over 5 years $m	Total $m
Overseas				
Government and public authorities	46	53	132	231
Agriculture, forestry, fishing and mining	1,681	974	2,151	4,806
Financial, investment and insurance	735	2,386	397	3,518
Real estate construction	1,548	414	153	2,115
Manufacturing	1,417	1,267	481	3,165
Real estate mortgage	12,554	3,149	26,636	42,339
Instalment loans to individuals and other personal lending (including credit cards)	6,046	2,465	336	8,847
Asset and lease financing	1,420	2,154	2,195	5,769
Other commercial and industrial	10,372	6,673	6,477	23,522
	35,819	19,535	38,958	94,312
Total gross loans and advances	87,312	56,251	144,626	288,189
Nature of interest rate applicable to loans at amortised cost				
Variable interest rates *(2)*				
Australia	35,099	5,322	74,354	114,775
Overseas	31,469	11,857	22,396	65,722
Fixed interest rates				
Australia	16,394	31,394	31,314	79,102
Overseas	4,350	7,678	16,562	28,590
Total gross loans and advances	87,312	56,251	144,626	288,189

(1) Overdrafts are not subject to a repayment schedule. Due to their characteristics, overdrafts are categorised as due within one year.

(2) For a range of credit products that are classified as variable, the Group is required to give a period of notice before a change in the applicable interest rate is effective.

Investment in finance lease receivables are as follows

	Group		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Due within 1 year	**3,949**	3,825	**2,291**	2,180
Due within 1 2 year(s)	**2,980**	2,996	**1,838**	1,773
Due within 2 3 years	**1,966**	2,082	**1,309**	1,345
Due within 3 4 years	**1,069**	1,214	**772**	848
Due within 4 5 years	**556**	635	**401**	423
Due after 5 years	**2,266**	2,717	**93**	123
Total investment in finance lease receivables	**12,786**	13,469	**6,704**	6,692

Investment in finance lease receivables net of unearned income are as follows

	Group		Company	
	2006	**2005**	**2006**	**2005**
	$m	**$m**	**$m**	**$m**
Due within 1 year	**3,357**	3,301	**1,800**	1,811
Due within 1 2 year(s)	**2,531**	2,584	**1,458**	1,473
Due within 2 3 years	**1,666**	1,787	**1,050**	1,118
Due within 3 4 years	**898**	1,036	**622**	707
Due within 4 5 years	**472**	542	**326**	351
Due after 5 years	**2,244**	2,684	**74**	102
Total investment in finance lease receivables net of unearned income	**11,168**	11,934	**5,330**	5,562

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18 Provisions for doubtful debts

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
Specific provision for doubtful debts	**184**	358	**137**	233
Collective provision for doubtful debts	**1,838**	2,064	**1,115**	1,351
Total provision for doubtful debts	**2,022**	2,422	**1,252**	1,584
Deduct: Specific provision for off-balance sheet credit-related commitments *(1)*	**(1)**	(4)	**(1)**	(3)
Net provision for doubtful debts	**2,021**	2,418	**1,251**	1,581

(1) The specific provision for off-balance sheet credit-related commitments is shown as a liability in the financial report (refer to note 31).

Reconciliation of movements in provisions for doubtful debts

Specific provision				
Balance at beginning of year	**358**	412	**233**	255
AIFRS transition adjustment	**(77)**		**(19)**	
Restated opening balance	**281**	412	**214**	255
Disposal of controlled entities	**(7)**	(21)		
Transfer from collective provision	**470**	422	**168**	191
Bad debts written off	**(782)**	(599)	**(364)**	(249)
Bad debts recovered	**230**	195	**119**	77
Foreign currency translation and other adjustments	**(8)**	(51)		(41)
Balance at end of year	**184**	358	**137**	233
Collective provision				
Balance at beginning of year	**2,064**	2,116	**1,351**	1,261
AIFRS transition adjustment	**(415)**		**(335)**	
Restated opening balance	**1,649**	2,116	**1,016**	1,261
Disposal of controlled entities	**(1)**	(92)		
Transfer to specific provision	**(470)**	(422)	**(168)**	(191)
Charge to income statement	**606**	534	**262**	294
Foreign currency translation and other adjustments	**54**	(72)	**5**	(13)
Balance at end of year	**1,838**	2,064	**1,115**	1,351
Total provision for doubtful debts	**2,022**	2,422	**1,252**	1,584

Specific provision for doubtful debts by industry category

The following table provides an analysis of the Group s specific provision for doubtful debts by industry category for the last two years ended September 30:

Group

	2006 $m	2005 $m
Australia		
Agriculture, forestry, fishing and mining	**10**	17
Financial, investment and insurance	**6**	16
Real estate - construction	**1**	2
Manufacturing	**63**	73
Real estate - mortgage *(1)*	**28**	10
Instalment loans to individuals and other personal lending (including credit cards)	**2**	21
Asset and lease financing	**7**	12
Other commercial and industrial	**20**	70
	137	221

	Group 2006 $m	Group 2005 $m
Overseas		
Agriculture, forestry, fishing and mining	**6**	24
Financial, investment and insurance		1
Real estate - construction	**2**	7
Manufacturing	**11**	3
Real estate - mortgage	**1**	1
Instalment loans to individuals and other personal lending (including credit cards)	**10**	65
Asset and lease financing		9
Other commercial and industrial	**17**	27
	47	137
Total specific provision for doubtful debts	**184**	358

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(1) Prior to the 2006 year, housing loans were classified as either instalment loans to individuals and other personal lending (including credit cards) or within the industry category that the customer operated. In 2006, housing loans have been reclassified as real estate - mortgage . Consequently 2005 comparatives have been restated.

Collective provision for doubtful debts by industry category

The following table provides an analysis of the Group s collective provision for doubtful debts by industry category for the last two years ended September 30:

	Group 2006 $m	Group 2005 $m
Australia		
Government and public authorities	**1**	
Agriculture, forestry, fishing and mining	**47**	57
Financial, investment and insurance	**55**	55
Real estate - construction	**11**	24
Manufacturing	**64**	46
Real estate - mortgage	**18**	40
Instalment loans to individuals and other personal lending (including credit cards)	**129**	241
Asset and lease financing	**53**	80
Other commercial and industrial	**630**	715
	1,008	1,258
Overseas		
Government and public authorities	**1**	1
Agriculture, forestry, fishing and mining	**32**	66
Financial, investment and insurance	**23**	21
Real estate - construction	**16**	20
Manufacturing	**36**	75
Real estate - mortgage	**5**	22
Instalment loans to individuals and other personal lending (including credit cards)	**216**	151
Asset and lease financing	**41**	60
Other commercial and industrial	**460**	390
	830	806
Total collective provision for doubtful debts	**1,838**	2,064

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Explanation of Responses:

Bad debts written off and bad debts recovered by industry category

The following table provides an analysis of bad debts written off and bad debts recovered by industry category for the last two years ended September 30:

	Group	
	2006 $m	**2005 $m**
Bad debts written off		
Australia		
Agriculture, forestry, fishing and mining	**11**	8
Financial, investment and insurance	**15**	3
Real estate - construction	**2**	3
Manufacturing	**14**	15
Real estate - mortgage *(1)*	**17**	
Instalment loans to individuals and other personal lending (including credit cards)	**162**	160
Asset and lease financing	**38**	13
Other commercial and industrial	**80**	27
	339	229
Overseas		
Agriculture, forestry, fishing and mining	**22**	3
Real estate - construction		21
Manufacturing	**5**	8
Instalment loans to individuals and other personal lending (including credit cards)	**365**	278
Asset and lease financing		7
Other commercial and industrial	**51**	53
	443	370
Total bad debts written off	**782**	599

(1) Prior to the 2006 year, housing loans were classified as either instalment loans to individuals and other personal lending (including credit cards) or within the industry category that the customer operated. In 2006, housing loans have been reclassified as real estate - mortgage . 2005 comparatives have not been restated as it is impracticable to do so.

	Group	
	2006 $m	**2005 $m**
Bad debts recovered		
Australia		
Agriculture, forestry, fishing and mining	**1**	1
Financial, investment and insurance		3
Manufacturing	**1**	1
Real estate - mortgage	**1**	
Instalment loans to individuals and other personal lending (including credit cards)	**52**	57
Asset and lease financing	**30**	2
Other commercial and industrial	**32**	7
	117	71
Overseas		
Financial, investment and insurance		1

Instalment loans to individuals and other personal lending (including credit cards)	**101**	97
Asset and lease financing	**1**	
Other commercial and industrial	**11**	26
	113	124
Total bad debts recovered	**230**	195

19 Asset quality disclosures

The following tables provide an analysis of the asset quality of the Group s loans and advances for the last two years ended September 30. Gross amounts have been prepared without regard to security available for such loans and advances.

	Group	
	2006 **$m**	**2005** **$m**
Total impaired assets *(1) (2) (3)*		
Gross		
Australia	**836**	761
Overseas	**221**	266
	1,057	1,027
Specific provision for doubtful debts		
Australia	**137**	201
Overseas	**47**	115
	184	316
Net		
Australia	**699**	560
Overseas	**174**	151
Total net impaired assets	**873**	711

(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 loans amounting to $56 million gross, $56 million net (2005: $10 million gross, $4 million net) where some concerns exist as to the ongoing ability of the borrowers to comply with existing loan terms, but on which no principal or interest payments are contractually past due.

(3) Includes off-balance sheet credit-related commitments amounting to $7 million gross, $6 million net (2005: $27 million gross, $23 million net).

The following table provides information regarding non-impaired assets past due 90 days or more.

	Group	
	2006	**2005**

	$m	$m
Non-impaired assets past due 90 days or more with adequate security		
Australia	**477**	582
Overseas	**58**	79
Total non-impaired assets past due 90 days or more with adequate security	**535**	661
Non-impaired assets portfolio facilities past due 90 to 180 days		
Gross		
Australia	**128**	89
Overseas	**101**	69
	229	158
Specific provision for doubtful debts		
Australia		21
Overseas		21
		42
Net		
Australia	**128**	68
Overseas	**101**	48
Total net non-impaired assets portfolio facilities past due 90 to 180 days	**229**	116

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	Group	
	2006 $m	2005 $m
Additional information in respect of impaired assets		
Fair value of security *(1)*		
Australia	**470**	384
Overseas	**164**	151
	634	535
Loans newly classified into impaired asset categories during the year		
Australia	**641**	488
Overseas	**210**	205
	851	693

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(1) 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 Due from customers on acceptances/liability on acceptances

	Group		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
(a) Due from customers on acceptances				
Australia				
Government and public authorities	**24**	44	**24**	44
Agriculture, forestry, fishing and mining	**4,411**	2,939	**4,411**	2,939
Financial, investment and insurance	**3,320**	2,549	**3,320**	2,549
Real estate - construction	**1,172**	794	**1,172**	794
Manufacturing	**2,915**	2,056	**2,915**	2,056
Instalment loans to individuals and other personal lending (including credit cards)	**256**	191	**256**	191
Other commercial and industrial	**29,616**	19,039	**29,616**	19,039
	41,714	27,612	**41,714**	27,612
Overseas				
Manufacturing	**12**	2		
Other commercial and industrial		13		
	12	15		
Total due from customers on acceptances	**41,726**	27,627	**41,714**	27,612
(b) Liability on acceptances				
Australia	**32,102**	27,612	**32,102**	27,612
Overseas	**12**	15		
Total liabilities on acceptances	**32,114**	27,627	**32,102**	27,612

21 Property, plant and equipment

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Land and buildings *(1)*				
Freehold				
At cost (acquired subsequent to previous valuation date)	**34**	14		
At directors valuation	**343**	384	**25**	24
Leasehold				
At cost (acquired subsequent to previous valuation date)	**26**	33	**20**	18
At directors valuation	**18**	17		
Deduct: Accumulated depreciation on buildings	**(14)**	(10)	**(12)**	(8)
	407	438	**33**	34
Leasehold improvements				
At cost	**1,008**	949	**686**	653
Deduct: Accumulated amortisation	**(510)**	(470)	**(371)**	(350)
	498	479	**315**	303
Furniture, fixtures and fittings and other equipment *(2)*				
At cost	**672**	607	**124**	119
Under finance lease		1		1
Deduct: Accumulated depreciation and amortisation	**(483)**	(411)	**(100)**	(94)
Deduct: Accumulated impairment losses	**(6)**	(6)		
	183	191	**24**	26
Data processing equipment *(2)*				
At cost	**1,337**	1,341	**781**	726
Under finance lease	**41**	20	**21**	1
Deduct: Accumulated depreciation and amortisation	**(1,113)**	(1,126)	**(642)**	(591)
	265	235	**160**	136
Leased assets held as lessor				
At cost	**823**	3,405	**459**	406
Deduct: Accumulated amortisation	**(299)**	(904)	**(157)**	(139)
Deduct: Accumulated impairment losses		(15)		
	524	2,486	**302**	267
Total property, plant and equipment	**1,877**	3,829	**834**	766

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(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	***301***	*340*	***25***	*23*

(2) Net carrying value of assets under finance lease comprises of the following:

Data processing equipment	***20***	*2*	***20***	

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	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
Reconciliations of movements in property, plant and equipment				
Land and buildings				
Balance at beginning of year	**438**	629	**34**	37
Disposals from sale of controlled entities	**(2)**	(146)		
Additions	**13**	26		1
Disposals	**(65)**	(15)		(1)
Net amount of revaluation increments less decrements *(1)*	**11**	1		1
Depreciation	**(13)**	(15)	**(3)**	(4)
Foreign currency translation adjustments	**25**	(42)	**2**	
Balance at end of year	**407**	438	**33**	34
Leasehold improvements				
Balance at beginning of year	**479**	480	**303**	289
Disposals from sale of controlled entities	**(7)**	(15)		
Additions	**115**	98	**69**	61
Disposals	**(16)**	(9)	**(8)**	(2)
Amortisation	**(78)**	(68)	**(49)**	(44)
Foreign currency translation adjustments	**5**	(7)		(1)
Balance at end of year	**498**	479	**315**	303
Furniture, fixtures and fittings and other equipment				
Balance at beginning of year	**191**	217	**26**	21
Disposals from sale of controlled entities	**(7)**	(25)		
Additions	**36**	84	**8**	14
Disposals	**(3)**	(4)	**(1)**	(1)
Impairment losses recognised	**(1)**			
Depreciation and amortisation	**(44)**	(47)	**(10)**	(8)
Foreign currency translation adjustments	**11**	(34)	**1**	
Balance at end of year	**183**	191	**24**	26
Data processing equipment				
Balance at beginning of year	**235**	276	**136**	153
Disposals from sale of controlled entities	**(1)**	(8)		
Additions	**157**	103	**112**	58
Disposals	**(19)**	(14)	**(19)**	(2)
Depreciation and amortisation	**(111)**	(115)	**(69)**	(73)
Foreign currency translation adjustments	**4**	(7)		
Balance at end of year	**265**	235	**160**	136
Leased assets held as lessor				
Balance at beginning of year	**2,486**	2,468	**267**	229
Disposals from sale of controlled entities	**(2,002)**			
Additions	**947**	1,122	**122**	105
Disposals	**(618)**	(468)	**(28)**	(15)
Impairment losses recognised		(15)		
Reversal of impairment losses recognised	**11**			
Depreciation and amortisation	**(339)**	(545)	**(59)**	(52)
Foreign currency translation adjustments	**39**	(76)		
Balance at end of year	**524**	2,486	**302**	267

(1) The fair values of freehold and leasehold land and buildings have been determined by directors based on advice from independent valuers and regular independent valuations. The effective date of the most recent valuation was July 31, 2006. Such valuations were performed on an open market basis, being amounts for which assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm s length transaction at the valuation date.

22 Investments in controlled entities and joint venture entities

	Group		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Shares in controlled entities				
At cost			**15,451**	11,150
Deduct: Provision for diminution in value			**(151)**	(145)
Total shares in controlled entities			**15,300**	11,005
Interests in joint venture entities		16		16
Total investments in controlled entities and joint venture entities		16	**15,300**	11,021

23 Goodwill and other intangible assets

	Group		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Goodwill				
At cost	**4,434**	4,767		
Total goodwill	**4,434**	4,767		
Internally generated software				
At cost	**1,024**	789	**491**	405
Deduct: Accumulated amortisation	**(458)**	(305)	**(285)**	(197)
Deduct: Accumulated impairment losses	**(32)**	(31)		
Total internally generated software	**534**	453	**206**	208
Acquired software				
At cost	**415**	321	**288**	254
Deduct: Accumulated amortisation	**(252)**	(160)	**(158)**	(121)
Total acquired software	**163**	161	**130**	133
Other acquired intangibles				
At cost	**103**	103		
Deduct: Accumulated amortisation	**(31)**	(26)		
Total other acquired intangibles	**72**	77		
Total goodwill and other intangible assets	**5,203**	5,458	**336**	341
Reconciliation of movements in goodwill and other intangible assets				
Goodwill				
Balance at beginning of year	**4,767**	632		
AIFRS transition adjustment		4,094		
Restated opening balance	**4,767**	4,726		
Additions from acquisition of controlled entities *(1)*		63		
Disposals from sale of controlled entities	**(344)**	(13)		
Foreign currency translation adjustments	**11**	(9)		
Balance at end of year	**4,434**	4,767		

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Explanation of Responses:

	Group		Company	
	2006 **$m**	**2005** **$m**	**2006** **$m**	**2005** **$m**
Internally generated software				
Balance at beginning of year	**453**	441	**208**	246
Additions from internal development	**253**	288	**94**	162
Disposals and write-offs	**(4)**	(127)	**(4)**	(118)
Amortisation	**(147)**	(134)	**(92)**	(82)
Impairment losses recognised	**(1)**			
Foreign currency translation adjustments	**(20)**	(15)		
Balance at end of year	**534**	453	**206**	208
Acquired software				
Balance at beginning of year	**161**	215	**133**	132
Additions	**56**	72	**41**	56
Disposals and write-offs	**(19)**	(84)	**(17)**	(22)
Amortisation	**(36)**	(39)	**(27)**	(31)
Foreign currency translation adjustments	**1**	(3)		(2)
Balance at end of year	**163**	161	**130**	133
Other acquired intangibles				
Balance at beginning of year	**77**	82		
Amortisation	**(5)**	(5)		
Balance at end of year	**72**	77		

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(1) *In 2005, this represents the purchase of the remaining equity interest in HKMLC Holdings Limited.*

The estimated Group aggregate amortisation of these intangible assets over each of the next five years is $198 million in 2007, $164 million in 2008, $128 million in 2009, $98 million in 2010, and $80 million in 2011. *Refer to forward-looking statements section on page 4.*

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. Refer to note 2 for the carrying amount of goodwill allocated across CGUs.

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:

	Discount rate (1)		Terminal value growth rate (2)	
	2006 %	2005 %	2006 %	2005 %
Australia Region	**11.0%**	11.0%	**5.0%**	5.0%
United Kingdom Region	**11.0%**	11.0%	**5.0%**	5.0%
New Zealand Region	**11.0%**	11.0%	**5.0%**	5.0%

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(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 three year forecast period. These growth rates are based on forecast assumptions of the CGUs long-term performance in their respective markets. Refer to forward-looking statements section on page 4.

24 Deferred tax assets

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Deferred tax assets	**1,631**	1,734	**1,055**	950
Deferred tax assets comprise				
Specific provision for doubtful debts	**56**	74	**48**	70
Collective provision for doubtful debts	**532**	621	**328**	401
Employee entitlements	**224**	200	**193**	174
Tax losses	**48**	33	**39**	33
Pension liabilities	**138**	296	**12**	31
Other	**633**	510	**435**	241
Total deferred tax assets	**1,631**	1,734	**1,055**	950
Deferred tax asset amounts recognised in the income statement:				
Provision for doubtful debts	**16**	61	**14**	51
Employee entitlements	**27**	29	**20**	24
Tax losses	**6**		**2**	(2)
Pension liabilities	**(163)**	(4)	**(17)**	
Other	**(96)**	80	**(19)**	24
Total deferred tax asset amounts recognised in the income statement	**(210)**	166		97
Deferred tax asset amounts recognised in equity:				
Cash flow hedge reserve	**(52)**		**(52)**	
Equity based payments reserve	**5**		**5**	
Retained profits	**(16)**		**(1)**	
Total deferred tax asset amounts recognised in equity	**(63)**		**(48)**	
Total deferred tax asset amounts recognised during the year	**(273)**	166	**(48)**	97

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:

Capital gains tax losses	**1,933**	1,873	**853**	872
Income tax losses	**54**	56		15
Temporary differences	**39**	37	**28**	21

These deferred tax assets will only be obtained if:

future assessable income is derived of a nature and an amount sufficient to enable the benefit to be realised;

the conditions for deductibility imposed by tax legislation continue to be complied with; and

no changes in tax legislation adversely affect the Group in realising the benefit.

Certain tax losses and temporary differences expire as follows: $nil in 2007, $1,081 million in 2008 and $22 million after 2008. Other tax losses and temporary differences do not expire under current legislation.

25 Other assets

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Accrued interest receivable	**2,662**	1,798	**1,861**	1,248
Prepayments	**134**	159	**58**	60
Receivables	**520**	969	**372**	636
Other life insurance assets				
Accrued income receivable	**40**	43		
Outstanding premiums receivable	**77**	75		
Unsettled investment transactions	**5**	12		
Other	**99**	68		
Defined benefit pension scheme assets *(1)*	**258**	111	**202**	59
Other	**2,244**	1,767	**769**	682
Total other assets	**6,039**	5,002	**3,262**	2,685

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(1) *Refer to note 34 for detailed disclosures.*

26 Due to other banks

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Australia				
Interest bearing	**16,098**	12,696	**16,098**	12,696
Non-interest bearing	**284**	651	**284**	651
	16,382	13,347	**16,382**	13,347
Overseas				
Interest bearing	**21,095**	22,945	**16,633**	19,258
Non-interest bearing	**12**	30		
	21,107	22,975	**16,633**	19,258
Total due to other banks	**37,489**	36,322	**33,015**	32,605

27 Other financial liabilities at fair value

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Australia				
Securities sold short	**1,121**	346	**1,121**	286
Other financial liabilities	**251**		**251**	
	1,372	346	**1,372**	286
Overseas				
Deposits and other borrowings				
Certificates of deposit	**2,866**			
Term deposits	**3,176**		**967**	
Borrowings	**4,544**			
Bonds, notes and subordinated debt *(1)(2)(3)*	**3,615**			
Securities sold short	**1,675**	1,141	**1,105**	351
Other financial liabilities	**396**		**18**	
Fair value adjustment	**36**		**47**	
	16,308	1,141	**2,137**	351
Total other financial liabilities at fair value	**17,680**	1,487	**3,509**	637

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(1) Includes $300m fixed rate note (issued by Clydesdale Bank PLC) maturing greater than 5 years with a fixed rate of 4.38%.

(2) Includes $1,818m floating rate note (FRN) issued under the USD global medium-term notes program maturing between 1 to 5 years, $367m FRN issued under the NZD global medium-term notes program maturing between 1 to 5 years, $177m fixed rate note issued under the HKD global medium-term notes program maturing between 1 to 5 years with a fixed rate of 4.47%, $342m FRN issued under the EUR global medium-term notes program maturing between 1 to 5 years (all issued by BNZ International Funding Limited).

(3) Includes $90m fixed rate note issued under the NZD domestic medium-term notes program maturing between 0 to 1 year with fixed rates between 6.62% and 7.50% and $433m fixed rate note issued under the NZD domestic medium-term notes program maturing between 1 to 5 years with fixed rates between 7.14% and 7.50% and $88m fixed rate note issued under the NZD domestic medium-term notes program maturing greater than 5 years issued by BNZ Limited fixed at 7.50%.

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 occur if the financial liability was measured on another basis.

Funds are derived from well-diversified resources spread over the following geographic locations. Concentrations of other financial liabilities at fair value by geographic location are based on the geographic location in which the liabilities are recognised:

	Group	
	2006 $m	2005 $m
Australia	**1,372**	346
Europe	**2,410**	351
New Zealand	**13,328**	193
United States	**570**	597
Total other financial liabilities at fair value	**17,680**	1,487

Maturities of deposits

The following table shows the maturity profile of all certificates of deposit, and additionally term deposits issued with a value of $100,000 or more at September 30, 2006 that are included within the deposits and other borrowings - other financial liabilities at fair value category:

	0 to 3 month(s) $m	3 to 6 months $m	6 to 12 months $m	Over 12 months $m	Total $m
Overseas					
Certificates of deposit	2,098	380	355	33	2,866
Term deposits	2,000	113	78	977	3,168
Total certificates of deposit and term deposits > $100,000	4,098	493	433	1,010	6,034

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28 Deposits and other borrowings

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Australia				
Deposits				
Deposits not bearing interest	**7,555**	6,544	**7,555**	6,544
On-demand and short-term deposits *(1)*	**63,278**	51,694	**63,278**	51,694
Certificates of deposit	**8,180**	13,934	**8,180**	13,934
Term deposits	**34,967**	34,065	**34,967**	34,065
Securities sold under agreements to repurchase	**3,629**	2,429	**3,629**	2,429
Borrowings	**13,101**	13,638	**13,030**	10,053
	130,710	122,304	**130,639**	118,719
Overseas				
Deposits				
Deposits not bearing interest	**4,581**	4,437	**404**	594
On-demand and short-term deposits *(1)*	**38,816**	33,008	**2,007**	3,848
Certificates of deposit	**13,466**	12,835	**10,088**	7,536
Term deposits	**30,860**	29,510	**12,829**	11,466
Securities sold under agreements to repurchase	**1,697**	2,679	**1,697**	2,679
Borrowings	**2,147**	7,784		
	91,567	90,253	**27,025**	26,123
Total deposits and other borrowings	**222,277**	212,557	**157,664**	144,842

(1) *Deposits available on demand or lodged for periods of less than 30 days.*

Funds are derived from well-diversified resources spread over the following geographic locations. Concentrations of deposits and other borrowings by geographical location are based on the geographical location of the office in which the deposits and other borrowings are recognised:

	Group	
	2006 $m	**2005 $m**
Australia	**130,710**	122,304
Europe	**58,807**	46,648
New Zealand	**19,595**	26,172
United States	**7,513**	13,390
Asia	**5,652**	4,043
Total deposits and other borrowings	**222,277**	212,557

Maturities of deposits

The following table shows the maturity profile of all certificates of deposit, and additionally term deposits issued with a value of $100,000 or more that are recorded at amortised cost at September 30, 2006:

	0 to 3 month(s) $m	3 to 6 months $m	6 to 12 months $m	Over 12 months $m	Total $m
Australia					
Certificates of deposit	5,501	1,851	820	8	8,180
Term deposits	22,404	3,249	2,754	609	29,016
	27,905	5,100	3,574	617	37,196
Overseas					
Certificates of deposit	8,322	1,999	2,632	513	13,466
Term deposits	20,719	4,756	1,807	2,544	29,826
	29,041	6,755	4,439	3,057	43,292
Total certificates of deposit and term deposits > $100,000	56,946	11,855	8,013	3,674	80,488

Short-term borrowings

Short-term borrowings of the Group include the commercial paper programs of the Company, National Australia Funding (Delaware), Inc., Bank of New Zealand and Clydesdale Bank PLC. The following table sets forth information concerning the Group s commercial paper programs for each of the last two years ended September 30:

	Group	
	2006 $m	2005 $m
Commercial paper		
Balance outstanding at balance date	**16,264**	16,690
Maximum outstanding at any month end	**28,233**	27,239
Approximate average amount outstanding during the year	**20,377**	17,666
Approximate weighted average interest rate on		
Balance outstanding at balance date (per annum)	**4.7%**	3.5%
Average amount outstanding during the year (per annum)	**3.8%**	3.1%

29 Life policy liabilities

	Group		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Life insurance contracts				
Best estimate liabilities				
Value of future policy benefits	**5,089**	7,241		
Value of future expenses	**1,303**	1,502		
Future charges for acquisition costs	**(60)**	(59)		
Value of future revenues	**(6,399)**	(8,220)		
Total best estimate liabilities for life insurance contracts	**(67)**	464		
Value of future profits				
Value of policy owner business	**591**	567		
Value of future shareholder profit margins	**1,608**	2,264		
Total value of future profits	**2,199**	2,831		
Unvested policyholder benefits	**163**	158		
Gross policy liabilities for life insurance contracts	**2,295**	3,453		
Life investment contracts				
Life investment contract liabilities	**44,180**	38,670		
Total life policy liabilities	**46,475**	42,123		

The calculation of policy liabilities is subject to various actuarial assumptions which are summarised in note 55. 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 1A(aa))*.

In respect of life insurance contracts with a discretionary participating feature, there are $1,685 million (2005: $1,780 million) of liabilities that relate to guarantees. In respect of investment contracts, there are $1,353 million (2005: $1,378 million) of policy liabilities subject to investment performance guarantees.

Reconciliation of movements in policy liabilities

	Group	
	2006	**2005**
	$m	**$m**
Life insurance contract liabilities at beginning of year	**3,453**	3,504
Impact of transition to AIFRS	**(631)**	
Restated opening balance	**2,822**	3,504
Increase/(decrease) reflected in the income statement	**87**	(51)
Disposals	**(614)**	
Life insurance contract policy liabilities at end of year	**2,295**	3,453
Life investment contract policy liabilities		
Life investment contract liabilities at beginning of year	**38,670**	32,630
Impact of transition to AIFRS	**821**	
Restated opening balance	**39,491**	32,630
Increase reflected in the income statement	**4,461**	5,621
Premiums recognised in policy liabilities	**7,699**	6,602
Claims recognised in policy liabilities	**(7,471)**	(6,183)
Life investment contract policy liabilities at end of year	**44,180**	38,670
Total gross policy liabilities at end of year	**46,475**	42,123
Liabilities ceded under reinsurance *(1)*		
Balance at beginning of year		
Impact of transition to AIFRS	**202**	
Restated opening balance	**202**	
Increase/(decrease) in reinsurance assets reflected in the income statement	**(92)**	
Increase/(decrease) in life insurance contracts from recapture of reinsurance treaty	**(181)**	
Balance at end of year *(1)*	**(71)**	
Net policy liabilities at end of year	**46,404**	42,123

(1) From October 1, 2005, on transition to AIFRS, policy liabilities are grossed up for liabilities ceded under reinsurance. In the 2005 year, liabilities ceded under reinsurance of $202 million were deducted from the gross policy liabilities amount. The $71 million reinsurance balance in the 2006 year is included within Other assets .

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30 Current and deferred tax liabilities

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
Current tax liabilities	**532**	145	**526**	19
Deferred tax liabilities	**1,490**	1,226	**342**	1,016
Total income tax liabilities	**2,022**	1,371	**868**	1,035
Deferred tax liabilities comprise				
Depreciation	**288**	69	**(64)**	(53)
Statutory funds	**571**	512		512
Pension assets	**78**	34	**61**	18
Other	**553**	611	**345**	539
Total deferred tax liabilities	**1,490**	1,226	**342**	1,016
Deferred tax liability amounts recognised in the income statement:				
Depreciation	**(32)**	50	**(5)**	28
Statutory funds	**46**			
Pension assets	**(1)**	(8)	**(1)**	1
Other	**(126)**	(53)	**(111)**	3
Total deferred tax liability amounts recognised in the income statement	**(113)**	(11)	**(117)**	32
Deferred tax liability amounts recognised in equity:				
Asset revaluation reserve		(3)		
Cash flow hedge reserve	**(30)**		**(16)**	
Retained profits	**47**	(39)	**43**	
Total deferred tax liability amounts recognised in equity	**17**	(42)	**27**	
Total deferred tax liability amounts recognised during the year	**(96)**	(53)	**(90)**	32

The amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is $64 million (2005: $87 million).

31 Provisions

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
Employee entitlements	**743**	716	**678**	607
Operational risk event losses	**143**	215	**99**	162
Restructuring costs	**269**	443	**171**	254
Off-balance sheet credit-related commitments	**1**	4	**1**	3
Other	**462**	469	**96**	111
Total provisions	**1,618**	1,847	**1,045**	1,137
Provision for restructuring costs comprises				
Termination benefits and outplacement	**140**	263	**96**	167

Occupancy-related	**108**	129	**63**	71
Other	**21**	51	**12**	16
Total provision for restructuring costs	**269**	443	**171**	254

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	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
Reconciliations of movements in provisions				
Employee entitlements				
Balance at beginning of year	**716**	594	**607**	492
Provision expense	**644**	597	**422**	379
Payments out of provisions	**(619)**	(448)	**(349)**	(264)
Sale of controlled entities	**(2)**	(15)		
Provision no longer required and net foreign currency movements	**4**	(12)	**(2)**	
Balance at end of year	**743**	716	**678**	607
Operational risk event losses				
Balance at beginning of year	**215**	148	**162**	38
Provision expense	**120**	189	**95**	159
Payments out of provisions	**(192)**	(85)	**(158)**	(35)
Sale of controlled entities		(27)		
Provision no longer required and net foreign currency movements		(10)		
Balance at end of year	**143**	215	**99**	162

Provision for operational risk event losses is recorded for losses which do not relate directly to principal outstanding for loans and advances and is recognised for all significant anticipated operational risk event losses where a loss is probable. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation at reporting date taking into account the risks and uncertainties that surround the circumstances of the provision.

Restructuring costs				
Balance at beginning of year	**443**	86	**254**	28
Provision expense		570		315
Payments out of provisions	**(186)**	(174)	**(90)**	(78)
Sale of controlled entities		(8)		
Provision no longer required and net foreign currency movements	**12**	(31)	**7**	(11)
Balance at end of year	**269**	443	**171**	254

Provision for restructuring costs includes 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. A provision for restructuring costs is only recognised when a detailed plan has been approved and the restructuring has either commenced or been publicly announced. This includes the cost of staff terminations benefits and surplus leased space. Costs related to ongoing activities are not provided for.

Off-balance sheet credit-related commitments				
Balance at beginning of year	**4**	10	**3**	5
Provision no longer required and net foreign currency movements	**(3)**	(6)	**(2)**	(2)
Balance at end of year	**1**	4	**1**	3
Other				
Balance at beginning of year	**469**	291	**111**	66

Provision expense	**271**	366	**32**	106
Payments	**(219)**	(150)	**(55)**	(60)
Sale of controlled entities	**(65)**	(28)		
Provision no longer required and net foreign currency movements	**6**	(10)	**8**	(1)
Balance at end of year	**462**	469	**96**	111

Other provisions include provisions for legal and other business claims, provisions for indemnities granted for controlled entities sold, redemption of National Gold Rewards points and other smaller items. A provision is recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

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32 Bonds, notes and subordinated debt

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Medium-term notes	**45,745**	30,616	**41,579**	29,522
Other senior notes	**8,419**	3,185	**4,012**	933
Subordinated medium-term notes	**10,556**	7,668	**9,943**	7,668
Other subordinated notes	**310**			
Total bonds, notes and subordinated debt	**65,030**	41,469	**55,534**	38,123
Net premiums/(discounts)	**(24)**	21	**(21)**	(15)
Total net bonds, notes and subordinated debt	**65,006**	41,490	**55,513**	38,108

Medium-term notes

The Group operates a number of medium-term notes 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. At September 30, 2006, based on exchange rates at dates of issue, the Company had US$14,502 million outstanding under this program. No further issues are envisaged under this program as it has been replaced by the global medium-term note program which permits either the Company, Clydesdale Bank plc or BNZ International Funding Limited (BNZ-IF) to issue notes;

under the debt issuance program of the Company, the aggregate issue amount is not limited. At September 30, 2006, the Company had $7,045 million outstanding under this program;

under the registered US medium-term note program of the Company, US$2,600 million is currently available. At September 30, 2006, the Company had US$1,300 million outstanding under this program;

under the US medium-term notes program through the Company s New York branch, notes may be issued up to an aggregate amount of US$1,000 million for terms of nine months or more. At September 30, 2006, the Company had no outstanding issues under this program;

under the global medium-term note program of the Company, notes may be issued up to an aggregate amount of US$30,000 million. At September 30, 2006, the Group had US$17,406 million outstanding under this program; and

Clydesdale Bank PLC and BNZ International Funding Limited (BNZ-IF) acting through its London Branch were added as issuers under the global medium-term note program in October 2005.

Medium-term notes rank equally with depositors and all other creditors of the Company.

The Group has designated certain debt issues as being carried at fair value. *Refer to note 27 for further information.*

Outstanding medium-term notes issued by the Group pursuant to medium-term notes programs at September 30 were as follows:

AUD Euro medium-term notes *(1) (2)*	**1,274**	2,734	**1,274**	2,734
CAD Euro medium-term notes *(1) (3)*	**1,323**	1,232	**1,323**	1,232
CHF Euro medium-term notes *(1) (4)*	**671**	634	**671**	634
EUR Euro medium-term notes *(1) (5)*	**2,377**	4,076	**2,377**	4,076
GBP Euro medium-term notes *(1) (6)*	**2,116**	2,876	**2,116**	2,876
HKD Euro medium-term notes *(1) (7)*	**961**	1,188	**961**	1,188
JPY Euro medium-term notes *(1) (8)*	**412**	782	**412**	782
NOK Euro medium-term notes *(1) (9)*	**103**	101	**103**	101
NZD Euro medium-term notes *(1) (10)*	**437**	546	**437**	546
SGD Euro medium-term notes *(1) (11)*	**92**	85	**92**	85
USD Euro medium-term notes *(1) (12)*	**5,404**	5,616	**5,404**	5,616
NZD Bank of New Zealand medium-term notes		516		
AUD global medium-term notes *(13) (14)*	**298**		**298**	
CAD global medium-term notes *(13) (15)*	**481**	448	**481**	448
CHF global medium-term notes *(13) (16)*	**1,289**	81	**1,289**	81
EUR global medium-term notes *(13) (17)*	**8,422**	1,738	**7,406**	1,738
GBP global medium-term notes *(13) (18)*	**4,992**	855	**2,483**	855
HKD global medium-term notes *(13) (19)*	**1,185**	593	**1,185**	593
JPY global medium-term notes *(13) (20)*	**303**		**303**	
NZD global medium-term notes *(13) (21)*	**309**	227	**309**	227
USD global medium-term notes *(13) (22)*	**5,381**	885	**5,381**	885
AUD debt issuance notes *(23) (24)*	**7,274**	4,825	**7,274**	4,825
GBP medium-term notes *(25)*	**641**	578		
Total medium-term notes	**45,745**	30,616	**41,579**	29,522

(1) *Notes issued under the Company s Euro medium-term note program.*

(2) $649m fixed rate notes maturing between 1 to 5 years with fixed rates between 4.88% - 5.57%, $275m floating rate notes (FRN) maturing between 0 to 1 year and $350m FRN s maturing between 1 to 5 years.

(3) $241m fixed rate notes maturing between 1 to 5 years with fixed rates between 4.25% - 4.75% and $1,082m FRN s maturing between 1 to 5 years.

(4) $537m fixed rate notes maturing between 1 to 5 years with fixed rates of 1.88% and $134m FRN s maturing between 1 to 5 years.

(5) $59m fixed rate notes maturing between 0 to 1 year with fixed rates of 3.00%, $25m fixed rates notes maturing between 1 to 5 years with fixed rates of 2.82%, $1,359m FRN s maturing between 0 to 1 year and $934m FRN s maturing between 1 to 5 years.

(6) $501m fixed rate notes maturing between 0 to 1 year with fixed rates of 5.50%, $1,003m fixed rate notes maturing between 1 to 5 years with fixed rates of 4.25%, $110m FRN s maturing between 0 to 1 years and $502m FRN s maturing between 1 to 5 years.

(7) $375m fixed rate notes maturing between 0 to 1 years with fixed rates between 1.92% - 5.47%, $292m fixed rate notes maturing between 1 to 5 years with fixed rates between 2.63 - 3.73%, $268m fixed rate notes maturing greater than 5 years with fixed rates between 3.70% - 4.70% and $26m FRN s maturing between 0 to 1 year.

(8) $220m fixed rate notes maturing between 0 to 1 year with fixed rates of 0.22%, $34m fixed rate notes maturing greater than 5 years with fixed rates of 1.00%, $120m FRN s maturing between 1 to 5 years and $38m maturing greater than 5 years.

(9) $103m fixed rate notes maturing between 0 to 1 year with fixed rates of 6.55%.

(10) $437m fixed rate notes maturing between 1 to 5 years with fixed rates of 6.00%.

(11) $92m fixed rate notes maturing between 0 to 1 year with fixed rates of 3.18%.

(12) $94m fixed rate notes maturing between 0 to 1 year with fixed rates between 3.01% - 3.60%, $2,208m fixed rate notes maturing between 1 to 5 years with fixed rates between 3.37% - 4.25%, $361m FRN s maturing between 0 to 1 year and $2,741m maturing between 1 to 5 years.

(13) Notes issued under the Company s global medium-term note program.

(14) $30m fixed rate notes maturing between 1 to 5 years with fixed rates of 5.77%, $268m FRN s maturing between 1 to 5 years.

(15) $481m FRN s maturing between 1 to 5 years.

(16) $86m fixed rate notes maturing between 1 to 5 years with fixed rates of 1.09%, $264m fixed rate notes maturing greater than 5 years with fixed rates of 2.26% , $939m FRN s maturing between 1 to 5 years.

(17) $31m fixed rate notes maturing between 1 to 5 years with fixed rates of 2.88%, $170m FRN s maturing between 0 to 1 year, $8,221m FRN s maturing between 1 to 5 years.

(18) $427m fixed rate notes maturing between 1 to 5 years with fixed rates between 4.63% - 5.30%, $4,565m FRN s maturing between 1 to 5 years.

(19) $215m fixed rate notes maturing between 0 to 1 year with fixed rates between 3.22% - 4.23%, $808m fixed rate notes maturing between 1 to 5 years with fixed rates between 3.82% - 5.31%, $137m fixed rate notes maturing greater than 5 years with fixed rates between 5.09% - 5.44% and $25m FRN s maturing between 1 to 5 years.

(20) $57m fixed rate notes maturing between 1 to 5 years with fixed rates of 0.10%, $246m FRN s maturing between 1 to 5 years.

(21) $90m fixed rate notes maturing between 1 to 5 years with fixed rates of 7.40%, $219m FRN s maturing between 1 to 5 years.

(22) $27m fixed rate notes maturing between 0 to 1 year with fixed rates of 4.24%, $1,396m fixed rate notes maturing between 1 to 5 years with fixed rates between 4.04% - 5.78%, $123m fixed rate notes maturing greater than 5 years with fixed rates between 4.49% - 6.02%, $67m FRN s maturing between 0 to 1 year, $3,660m FRN s maturing between 1 to 5 years, $108m FRN s maturing greater than 5 years.

(23) Notes issued under the Company s debt issuance program.

(24) $500m fixed rate notes maturing between 0 to 1 year with fixed rates of 6.00%, $1,944m fixed rate notes maturing between 1 to 5 years with fixed rates between 5.50% - 6.25%, $900m FRN s maturing between 0 to 1 year, $3,930m FRN s maturing between 1 to 5 years.

(25) $641m FRN s maturing between 1 to 5 years.

Other senior notes

Outstanding other senior notes issued by the Group under stand-alone programs as at September 30 were as follows:

	Group		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Extendible Rate Notes *(1)*	**4,012**		**4,012**	
AUD floating rate note (FRN) transferable certificates of deposit notes		933		933
National RMBS Trust 2004-1 and RMBS Trust 2006-1 *(2) (3)*	**2,407**	1,818		
National RMBS Trust 2006-2 *(4)*	**1,661**			
TSL Trust A Senior Notes	**20**	20		
Medfin Trust Senior Notes - Lease Securitisation *(5)*	**319**	414		
Total other senior notes	**8,419**	3,185	**4,012**	933

(1) $3,343m floating rate extendible notes maturing between 1 to 5 years, $669m floating rate extendible notes maturing greater than 5 years.

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(2) $641m National RMBS Trust 2004-1 mortgage backed floating rate Class A-1 US$ Notes, $240m National RMBS Trust 2004-1 mortgage backed floating rate A$ Class A-2 Notes, $198m National RMBS Trust 2004-1 mortgage backed floating rate EUR Class A-3 Notes and $18m National RMBS Trust 2004-1 mortgage backed floating rate A$ Class B Notes with a maturing date of March 2034.

(3) $1,300m National RMBS Trust 2006-1 mortgage backed floating rate A$ Class A Notes, $10m National RMBS Trust 2006-1 mortgage backed floating rate A$ Class B Notes.

(4) $308m National RMBS Trust 2006-2 mortgage backed floating rate A$ Senior Notes and $1,353m National RMBS Trust 2006-2 mortgage backed floating rate A$ Class B Preference Notes.

(5) $27.3m Medfin Trust 2003-1 lease backed floating rate A$ Class A Notes, $1.3m Medfin Trust 2003-1 lease backed floating rate A$ Class C Notes with a maturing date of May 2010, $22.0m Medfin Trust 2003-2 lease backed floating rate A$ Class A Notes, $0.4m Medfin Trust 2003-2 lease backed floating rate A$ Class B Notes, $1.7m Medfin Trust 2003-2 lease backed floating rate A$ Class C Notes with a maturing date of September 2010, $65.2m Medfin Trust 2004-1 lease backed floating rate A$ Class A Notes, $1.4m Medfin Trust 2004-1 lease backed floating rate A$ Class B Notes, $2.2m Medfin Trust 2004-1 lease backed floating rate A$ Class C Notes with a maturing date of March 2011, $68.5m Medfin Trust 2004-2 lease backed floating rate A$ Class A Notes, $1.4m Medfin Trust 2004-2 lease backed floating rate A$ Class B Notes, $2.2m Medfin Trust 2004-2 lease backed floating rate A$ Class C Notes with a maturing date of October 2011, $122.3m Medfin Trust lease backed fixed rate A$ Class Senior Notes with a maturing date of October 2006, $1.3m Medfin Trust lease backed floating rate A$ Class A Notes and $2.6m Medfin Trust lease backed floating rate A$ Class B Notes with a maturing date of May 2012.

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.

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 programs of the Company, described above.

Outstanding subordinated medium-term notes issued by the Group under these programs as at September 30 were as follows:

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
USD subordinated Euro medium-term notes *(1)*				
USD 300m subordinated Euro medium-term FRN due 03/12/2008	**401**	394	**401**	394
USD 200m subordinated Euro medium-term FRN due 05/08/2011		263		263
USD 300m subordinated Euro medium-term FRN due 08/29/2013	**401**	394	**401**	394
USD 750m subordinated Euro medium-term FRN due 06/23/2014	**1,003**	985	**1,003**	985
USD subordinated medium-term notes *(2)*				
USD 725m subordinated global medium term debt due 06/29/2016	**970**		**970**	
USD subordinated medium-term notes *(2)*				
USD 400m 6.6% subordinated medium-term notes due 12/10/2007	**542**	525	**542**	525
USD 700m subordinated medium-term FRN due 05/19/2010				
USD 900m 8.6% subordinated medium-term notes due 05/19/2010	**1,315**	1,181	**1,315**	1,181
EUR subordinated Euro medium-term notes *(1)*				
EUR 600m subordinated Euro medium-term FRN due 09/23/2014	**1,020**	948	**1,020**	948
EUR 600m 3.875% subordinated Euro medium-term notes due 06/04/2015	**987**	948	**987**	948
EUR 500m 4.5% subordinated Euro medium-term notes due 06/23/2016	**867**	790	**867**	790
EUR subordinated global medium-term notes *(4)*				
EUR 275m subordinated global medium term note due 04/07/2016	**467**		**467**	
EUR 200m subordinated global medium-term note due 09/29/2016	**340**		**340**	
CAD subordinated medium-term notes *(4)*				
CAD 300m subordinated global medium-term note due 09/21/2016	**367**		**367**	
GBP subordinated Euro medium-term notes *(1)*				
GBP 200m 5.375% subordinated Euro medium-term notes due 10/28/2015	**503**	462	**503**	462
GBP subordinated global medium-term notes *(4)*				
GBP 250m subordinated medium-term notes due 02/17/2016	**613**			

	Group		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
AUD subordinated debt issuance *(3)*				
AUD 450m 6.5% subordinated domestic medium-term notes due 06/02/2014	**449**	450	**449**	450
AUD 220m subordinated domestic medium-term FRN due 06/02/2014	**220**	220	**220**	220
AUD 25m subordinated FRN due 06/08/2006 *(1)*		25		25
AUD 40m subordinated FRN due 06/08/2008 *(1)*	**40**	40	**40**	40
AUD 3m subordinated FRN due 06/08/2010 *(1)*	**3**	3	**3**	3
AUD 20m 7.5% subordinated notes due 12/15/2027	**24**	20	**24**	20
AUD 20m 7.5% subordinated notes due 06/15/2028	**24**	20	**24**	20
Total subordinated medium-term notes	**10,556**	7,668	**9,943**	7,668

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(1) *Notes issued under the Company s Euro medium-term note program.*

(2) *Notes issued under the Company s US medium-term note program.*

(3) *Notes issued under the Company s debt issuance program.*

(4) *Notes issued under the Company s global medium-term note program.*

Other subordinated notes

The Company has conducted a number of stand-alone subordinated notes issues.

Outstanding other subordinated notes issued by the Company under stand-alone programs as at September 30 were as follows:

	Group		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
AUD 100m subordinated FRN due 6/16/2026	**103**			
AUD 200m subordinated 6.75% due 6/16/2026	**207**			
Total other subordinated notes	**310**			

Refer to note 43 for the expected repricing dates relating to bonds, notes and subordinated debt.

33 Other debt issues

	Group		Company	
	2006	**2005**	**2006**	**2005**
	$m	**$m**	**$m**	**$m**
Perpetual floating rate notes	**334**	328	**334**	328
Exchangeable capital units	**1,261**	1,231		
National Capital Instruments	**679**			
Total other debt issues	**2,274**	1,559	**334**	328

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 obligations of the Company, subordinated in that:

payments of principal and interest on the notes will only be paid (although they remain payable) to the extent that, after such payment, the Company remains solvent;

the payment of interest will also be optional if a dividend has not been declared, paid or made in the preceding 12 months; and

in the event of the winding-up of the Company, the rights of the note holders will rank in preference only to the rights of preferred and ordinary shareholders and creditors whose claims rank, or are expressed to rank, after those of the note holders and coupon holders.

The notes 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 7/8% per annum. Under the terms of the exchangeable capital units, the Company has the option to require the exchange of all, but not part, of the exchangeable capital units at any time for 7 7/8% convertible non-cumulative preference shares of the Company.

Holders of the exchangeable capital units or the convertible non-cumulative preference shares have the option at any time to exchange their holdings for ordinary shares of the Company (or, at the Company s option, cash) initially at the rate of 1.6365 ordinary shares per exchangeable capital unit or convertible non-cumulative preference share, subject to anti-dilution provisions.

As a result of certain holders of exchangeable capital units exercising their options to exchange their holdings for ordinary shares of the Company, the number of exchangeable capital units at September 30, 2006 is 21,062,934 (2005: 39,011,250).

From October 1, 2005 the exchangeable capital units are accounted for as a liability, revalued to the current spot rate each period end. The option to convert this instrument into an ordinary share of the Company is an embedded derivative that must be separated and recorded at fair value due to the requirements of AASB 139. The fair value of the derivative is included within the carrying value of the exchangeable capital units and movements in the fair value of the derivatives are included in the income statement.

The Company has the right to redeem all or part of the exchangeable capital units or redeem all or part of the convertible non-cumulative preference shares under a special offer at any time after March 19, 2007, with the prior consent of APRA.

National Capital Instruments

On September 29, 2006, the Group raised EUR400 million through the issue by National Capital Instruments [Euro] LLC 2 (a controlled entity formed in Delaware) of 8,000 National Capital Instruments (European 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 securities are constituted by instruments governed by English and Delaware law.

However, if Euro NCIs were to cease to be eligible to qualify as Tier 1 capital (other than on account of any applicable limitation on the amount of such capital) and APRA confirms that Capital Disqualification Event , distributions will become unconditional liabilities of National Capital Instruments [Euro] LLC 2.

With the prior consent of APRA, the Euro NCIs may be redeemed in certain limited circumstances. These circumstances are on September 29, 2016 and any subsequent distribution payment date after September 29, 2016.

The Euro NCI Preference Shares may be redeemed at any time after their issue (except where the Company has exercised its discretion to issue the Euro NCI preference shares, in which case they can only be redeemed if certain adverse tax, regulatory or acquisition events have occurred or on any date on or after September 29, 2016).

Other key terms and conditions are consistent with those of the Australian National Capital Instruments. *Refer to note 37 for further information.*

34 Defined benefit pension scheme assets and liabilities

The Group maintains several defined benefit superannuation plan and pension scheme arrangements worldwide. Some sponsored plans are in actuarial surplus, others are in a position of actuarial deficiency. Surpluses and deficiencies depend on many diverse factors and can vary significantly over time having regard, for example, to movements in the 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 1A(hh). In 2006, the Group contributed to six 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. Where they exist, 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	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Net asset in the balance sheet				
Fair value of plan assets	**2,929**	2,466	**2,763**	2,296
Present value of funded obligations	**(2,705)**	(2,367)	**(2,591)**	(2,246)
Net asset before adjustment for contribution tax	**224**	99	**172**	50
Adjustment for contribution tax	**34**	12	**30**	9
Net asset in the balance sheet *(1) (2)*	**258**	111	**202**	59
Net liability in the balance sheet				
Fair value of plan assets	**4,627**	3,686	**356**	284
Present value of partly funded obligations	**(4,940)**	(4,671)	**(388)**	(385)
Net liability in the balance sheet *(1)*	**(313)**	(985)	**(32)**	(101)

(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 25).

(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			
	2006		2005		2006		2005	
	$m	%	$m	%	$m	%	$m	%
Cash	**467**	**6.2**	111	1.8	**142**	**4.6**	89	3.4
Equity instruments	**4,552**	**60.3**	3,983	64.7	**1,763**	**56.5**	1,512	58.6
Debt instruments	**1,815**	**24.0**	1,519	24.7	**663**	**21.2**	533	20.7
Property	**502**	**6.6**	442	7.2	**337**	**10.8**	349	13.5
Other assets	**220**	**2.9**	97	1.6	**214**	**6.9**	97	3.8
Fair value of plan assets	**7,556**	**100.0**	6,152	100.0	**3,119**	**100.0**	2,580	100.0

The fair value of plan assets includes ordinary shares issued by the Company with a fair value of $62 million (2005: $41 million) and land and buildings occupied by the Group with a fair value of $33 million (2005: $27 million).

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(d) Reconciliations

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Net asset in the balance sheet				
Reconciliation of the present value of the defined benefit obligation				
Balance at beginning of year	**(2,367)**	(2,092)	**(2,246)**	(1,982)
Current service cost	**(127)**	(112)	**(120)**	(108)
Interest cost	**(189)**	(166)	**(183)**	(161)
Actuarial losses	**(95)**	(54)	**(97)**	(51)
Benefits paid	**195**	158	**180**	138
Member contributions	**(126)**	(82)	**(125)**	(82)
Past service cost		(21)		
Foreign currency translation adjustments	**4**	2		
Balance at end of year	**(2,705)**	(2,367)	**(2,591)**	(2,246)
Reconciliation of the fair value of plan assets				
Balance at beginning of year	**2,466**	2,211	**2,296**	2,029
Expected return on plan assets *(1)*	**196**	175	**185**	163
Actuarial gains	**224**	55	**220**	53
Contributions by Group companies	**145**	135	**139**	127
Benefits paid	**(195)**	(158)	**(180)**	(138)
Member contributions	**126**	82	**125**	82
Plan expenses	**(7)**	(11)	**(1)**	(1)
Contributions tax paid on period contributions by Group companies	**(22)**	(20)	**(21)**	(19)
Foreign currency translation adjustments	**(4)**	(3)		
Balance at end of year	**2,929**	2,466	**2,763**	2,296

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(1) The actual return on plan assets for the Group was $420 million (2005: $230 million), and for the Company was $405 million (2005: $216 million).

Net liability in the balance sheet				
Reconciliation of the present value of the defined benefit obligation				
Balance at beginning of year	**(4,671)**	(6,072)	**(385)**	(335)
Current service cost	**(113)**	(140)	**(20)**	(21)
Interest cost	**(231)**	(263)	**(19)**	(17)
Actuarial losses	**(79)**	(589)	**(8)**	(47)
Benefits paid	**159**	154	**29**	8
Past service cost	**387**	(22)	**45**	(5)
Disposals and restructures	**(14)**	1,823		
Settlements or curtailments		11		3
Foreign currency translation adjustments	**(378)**	427	**(30)**	29
Balance at end of year	**(4,940)**	(4,671)	**(388)**	(385)
Reconciliation of the fair value of plan assets				
Balance at beginning of year	**3,686**	4,798	**284**	242
Expected return on plan assets (1)	**274**	300	**21**	19
Actuarial gains	**132**	481	**13**	32

Contributions by Group companies	**369**	152	**43**	21
Benefits paid	**(159)**	(154)	**(29)**	(8)
Plan expenses	**(4)**	(4)	**(1)**	(1)
Disposals and restructures		(1,550)		
Foreign currency translation adjustments	**329**	(337)	**25**	(21)
Balance at end of year	**4,627**	3,686	**356**	284

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(1) The actual return on plan assets for the Group was $406 million (2005: $781 million), and for the Company was $34 million (2005: $51 million).

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(e) Amounts recognised in the income statement

The amounts recognised in the consolidated income statement are as follows:

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Current service cost	**240**	252	**140**	129
Interest cost	**420**	429	**202**	178
Expected return on plan assets	**(470)**	(475)	**(206)**	(182)
Plan expenses	**11**	15	**2**	2
Past service cost	**(387)**	43	**(45)**	5
Disposals and curtailments		(284)		(3)
Contributions tax expense	**22**	20	**21**	19
Total defined benefit (income)/expense	**(164)**		**114**	148

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 (income)/expense 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. Accordingly, the total defined benefit (income)/expense for 2006 shown above is split between the pension revenue *(refer to note 4)* and a portion of superannuation costs - defined contributions *(refer to note 5)* in the income statement. For 2005, it is split between the net profit from the sale of National Europe Holdings (Ireland) Limited *(refer to note 4),* superannuation costs - defined benefits and a portion of superannuation costs - defined contributions *(refer to note 5)* in the income statement.

The total amount of actuarial gains/(losses) recognised directly in retained profits for the Group was $207 million (2005: loss of $107 million), and for the Company was $151 million (2005: $1 million). They are translated at the closing spot rate and have been grossed up for contribution taxes.

(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 to reduce plan deficits over time. 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	
	2006 %	2005 %
Discount rate (per annum)	**5.0**	5.0
Expected return on plan assets (per annum)	**6.8**	7.4
Rate of compensation increase (per annum)	**3.8**	4.2
Future pension increases (per annum)	**2.9**	2.8

(g) Net surplus/(deficit)

Listed below are details of the major plans with total assets in excess of $10 million each. The accrued benefits, plan assets at net market value and net surplus/(deficit) of these plans were:

Name of defined benefit fund	Most recent plan information	2006 Accrued benefits $m	2006 Plan assets $m	2006 Net accrued benefit surplus/ (deficit) $m	2005 Accrued benefits $m	2005 Plan assets $m	2005 Net accrued benefit surplus/ (deficit) $m
National Australia Bank Group Superannuation Fund A	June 30, 2006 plan financial report	**1,754**	**1,811**	**57**	1,754	1,811	57
Clydesdale Bank Pension Scheme	September 30, 2006 actuarial update	**2,451**	**2,228**	**(223)**	2,381	1,753	(628)
National Australia Bank UK Retirement Benefits Plan	September 30, 2006 actuarial update	**388**	**356**	**(32)**	385	283	(102)
Yorkshire Bank Pension Fund	September 30, 2006 actuarial update	**2,101**	**2,043**	**(58)**	1,905	1,650	(255)
Bank of New Zealand Officers Provident Association	June 30, 2006 actuarial update	**59**	**88**	**29**	66	99	33
National Wealth Management Superannuation Plan (Australia)	June 30, 2006 plan financial report	**53**	**71**	**18**	53	71	18
Total defined benefit funds		**6,806**	**6,597**	**(209)**	6,544	5,667	(877)

For Australian plans, the accrued benefits are reported in accordance with AAS 25: Financial Reporting by Superannuation Plans based on the latest triennial actuarial review, with plan assets being reported as at the date the actuarial review was conducted. Non-Australian plans are not required to report under AAS 25. Accordingly, accrued liabilities and asset values for other plans have been taken from IAS 19: Employee Benefits disclosures *(refer above).*

(h) Current contributions recommended

The following table shows the current contribution rate per year for each defined benefit fund:

	2006 %	2005 %
National Australia Bank Group Superannuation Fund A (Fund A)	**9.7**	9.7
Clydesdale Bank Pension Scheme (UK)	**29.9**	29.6
National Australia Bank UK Retirement Benefits Plan (UK)	**24.7**	22.3
Yorkshire Bank Pension Fund (UK)	**20.6**	20.6
Bank of New Zealand Officers Provident Association		
National Wealth Management Superannuation Plan (Australia) (MLC)	**17.2**	15.1

In the most recent actuarial review of Fund A, the plan s actuary recommended contributions be made to the funds. These were determined using the assumed contribution rates included above based on an aggregate funding method. Economic assumptions used to make funding recommendations include expected return on assets of 8%, and a salary increase rate of 4%.

In the most recent actuarial review of the MLC fund, the plan s actuary recommended contributions be made to the funds. These were determined using the assumed contribution rates included above based on an attained age normal funding method. Economic assumptions used to make funding recommendations include expected return on assets of 6%, and a salary increase rate of 4%.

In the most recent actuarial review of the UK funds, the plans actuary recommended contributions be made to the funds. These were determined using the assumed contribution rates included above based on a projected unit funding method. Economic assumptions used to make funding recommendations include expected return on assets of 6%, and a salary increase rate of 4%.

35 Managed fund units on issue

	Group		Company	
	2006 $m	**2005 (1) $m**	**2006 $m**	**2005 (1) $m**
Managed fund units on issue (2)	**7,249**			

(1) In 2005, this amount was classified as Minority interest in controlled entities within equity. On transition to AIFRS, from October 1, 2005 the minority interest in controlled unit trusts of the life insurance companies no longer meets the definition of equity. As a result, minority interest in life insurance business has been reclassified to Managed fund units on issue .

(2) Managed fund units on issue represent interests in Wealth Management controlled unit trusts held by external parties. Unit holders in the controlled unit trusts have the right to redeem their interest in the controlled unit trusts at any time for cash equal to their proportionate share of the asset value of the relevant unit trust. The names of the recognised schemes which the Group has consolidated, that have interests held by external parties, are as follows:

JANA Core Australian Share Trust
JANA Core Global Share Trust
JANA Core Global Share Trust With Currency Hedged
JANA High Alpha Australian Share Trust
JANA High Alpha Global Share Trust
Long-Term Absolute Return Portfolio
MLC (NCIT) Global Share Trust With Currency Hedged
MLC (NCIT) International Share Trust
MLC Horizon 7 Trust
MLCI Pool - Private Equity Trust
National Diversified Managers Australian Share Fund
National Diversified Managers Fixed Interest Fund
National Diversified Managers Global Share Fund
National Managed Investor Australian Equities Trust
National Managed Investor International Trust
NCIT - Global Equities Trust No.2
WM Pool - ABN Amro Global Equities Trust
WM Pool - BEM Aggressive Australian Equities Trust
WM Pool - Bernstein Global Equities Trust
WM Pool - Blackrock Global Fixed Interest (A) Trust
WM Pool - Blackrock Global Fixed Interest (S) Trust
WM Pool - Concord Australian Equities Trust
WM Pool - Contango Australian Equities Trust
WM Pool - Dimensional Australian Equities Trust
WM Pool - Fixed Interest Trust No. 1
WM Pool - Global Equities Trust No.4
WM Pool - Global Properties Trust
WM Pool - High Yield Fixed Interest Trust
WM Pool - Highbridge Australian Equities Trust
WM Pool - HSBC Property Securities Trust

WM Pool - Inflation Linked Securities Trust
WM Pool - Jardine Fleming Australian Equities Trust
WM Pool - Lazard Australian Equities Trust
WM Pool - LTAR Part 1 Trust
WM Pool - MBA Australian Equities Trust
WM Pool - NSIM Australian Fixed Interest (A) Trust
WM Pool - NSIM Australian Fixed Interest (S) Trust
WM Pool - NSIM Cash Trust
WM Pool - PIMCO Global Fixed Interest (A) Trust
WM Pool - PIMCO Global Fixed Interest (S) Trust
WM Pool - UBS Australian Fixed Interest (A) Trust
WM Pool - UBS Australian Fixed Interest (S) Trust
WM Pool - Vanguard Property Securities Trust
WM Pool - Wallara Australian Equities Trust
WM Sector - Australian Equities Growth Trust
WM Sector - Australian Equities Trust
WM Sector - Australian Equities Value Trust
WM Sector - Diversified Debt (All) Trust
WM Sector - Diversified Debt (Short) Trust
WM Sector - Global Equities (Unhedged) Trust
WM Sector - Global Equities Growth Trust
WM Sector - Global Equities Value Trust
WM Sector - Property Securities Trust

36 Other liabilities

	Group		**Company**	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Accrued interest payable	**3,293**	1,793	**2,434**	1,346
Payables and accrued expenses	**1,309**	1,198	**570**	400
Notes in circulation	**2,759**	2,224		
Other life insurance liabilities (1)				
Unsettled investment liabilities	**13**	59		
Outstanding policy claims	**67**	73		
Reinsurance creditors		51		
Other	**137**	199		
Other	**2,377**	5,473	**1,708**	3,740
Total other liabilities	**9,955**	11,070	**4,712**	5,486

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(1) Life insurance statutory fund liabilities are quarantined and will be settled from the assets of the statutory funds (refer to note 1A(w)).

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37 Contributed equity

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Issued and paid-up share capital				
Ordinary shares, fully paid	**7,948**	6,894	**8,440**	7,573
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 *(2)*	**397**		**397**	
	12,279	10,828	**11,796**	10,532

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(1) *Ordinary shares, partly paid to 25 cents have a total value of less than $1 million.*

(2) *In September 2006, the National Capital Instruments were issued. For further information, refer to discussion below.*

Reconciliation of movements in contributed equity				
Ordinary share capital				
Balance at beginning of year	**6,894**	7,271	**7,573**	7,271
AIFRS transition adjustment		(645)		
Restated opening balance	**6,894**	6,626	**7,573**	7,271
Shares issued				
Dividend reinvestment plan	**198**	205	**198**	205
Executive option plan no. 2	**41**	44	**41**	44
Paying up of partly paid shares	**1**	1	**1**	1
Exchangeable capital units converted	**972**	31	**610**	31
(Purchase)/sale and vesting of treasury shares	**(195)**	(7)	**(14)**	
Net gain/(loss) realised on treasury shares	**6**	(27)		
Current period equity based payments expense vested immediately	**7**	4	**7**	4
Transfer on vesting of equity based payments	**24**	17	**24**	17
Balance at end of year	**7,948**	6,894	**8,440**	7,573

The number of ordinary shares on issue for the last two years at September 30 was as follows:

	Company	
	2006 No. 000	**2005 No. 000**
Ordinary shares, fully paid		
Balance at beginning of year	**1,567,188**	1,550,784

Shares issued		
Dividend reinvestment plan	**5,918**	6,916
Bonus share plan	**3,229**	4,562
Staff share ownership plan	**1,894**	894
Staff share allocation plan	**582**	529
Executive option plan no. 2	**1,639**	1,795
Exchangeable capital units converted	**29,372**	1,611
Paying up of partly paid shares	**76**	97
	1,609,898	1,567,188
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	**466**	563
Paying up of partly paid shares	**(76)**	(97)
	390	466
Total number of ordinary shares on issue at end of year (including treasury shares)	**1,610,288**	1,567,654
Deduct: Treasury shares	**(26,993)**	(21,637)
Total number of ordinary shares on issue at end of year (excluding treasury shares)	**1,583,295**	1,546,017

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Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share 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.

Under AGAAP, direct investments in National Australia Bank Limited shares by the Group s life insurance statutory funds were recognised within investments relating to life insurance business in the balance sheet at market value. On transition to AIFRS, these investments are classified as treasury shares and deducted from share capital. *Refer to note 1A(nn) for further information.*

	Group		**Company**	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Treasury shares				
Balance at beginning of year	**679**			
AIFRS transition adjustment		645		
Net gain/(loss) realised on treasury shares	**(6)**	27		
Purchase/(sale) and vesting of treasury shares	**195**	7	**14**	
Balance at end of year	**868**	679	**14**	

	Group		**Company**	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $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. If the amount unpaid on a NIS preference share becomes due, the holder can, and must, transfer to the Company the note stapled to that NIS preference share. The transfer of the note to the Company will satisfy the holder s obligation to pay up the amount on the NIS preference share. The holder will then hold a fully paid NIS preference share.

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 commencing on August 15, 1999. A minimum interest rate of at least 6% per annum was payable until May 15, 2000. Holders of NIS preference shares are not entitled to dividends until the NIS preference shares become fully paid. If the NIS preference shares become fully paid, holders will receive, if declared, a dividend calculated at the same rate and payable on the same basis as for the NIS.

If a dividend is not paid on the NIS preference shares, the Company cannot, in certain circumstances, pay distributions on, redeem, buy back or reduce capital on any other shares of the Company that rank equally with or junior to the NIS preference shares.

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.

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. This may take place at any time after the fifth anniversary of the issue date of the NIS or earlier in certain limited circumstances.

NIS have no maturity date, are quoted on 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. In a winding-up of the Company, the holders of fully paid NIS preference shares issued in connection with the NIS will generally rank equally with the holders of other preference shares of the Company with the same number with respect to priority on payment in a winding-up (as specified in accordance with the Company s constitution), and will rank for a return of capital on the NIS preference shares in priority to the holders of ordinary shares. Preference shares may be issued by the Company in connection with the exchangeable capital units and the Trust Preferred Securities.

	Group		Company	
	2006 $m	2005 $m	2006 $m	2005 $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 (a controlled entity) 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%. The securities are constituted by instruments governed by New York and Delaware law.

In certain limited circumstances, the Trust Preferred Securities will be exchanged for redeemable preference shares in the Company (TPS preference shares). These take the form of Global Depositary Shares evidenced by Global Depositary Receipts. The circumstances in which the exchange event will occur include if a distribution is not paid on the Trust Preferred Securities or if the Company does not maintain certain prudential regulatory standards. The Company also has discretion to exchange the Trust Preferred Securities for TPS preference shares at any time.

If issued, each holder of a TPS preference share would receive, if declared, non-cumulative dividends calculated at the same rate and payable on the same basis as apply to the Trust Preferred Securities.

If a distribution is not paid on the Trust Preferred Securities, or a dividend is not paid on the TPS preference shares, the Company cannot, with certain exceptions, pay distributions on, redeem, buy back or reduce capital on any other shares or other capital instruments of the Company that rank equally with or junior to the securities unless it has paid 12 months distributions on the securities or an optional dividend.

Holders of the TPS preference shares (if issued) would be entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders were entitled to vote) on the basis of one vote per TPS 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 TPS preference shares.

With the prior consent of APRA, the Trust Preferred Securities may be redeemed by the issuer in certain limited circumstances. These circumstances are 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, in which case the redemption price may include a make-whole adjustment to compensate the investor for the investment opportunity lost by the early redemption (except where the tax event relates to withholding tax).

The TPS preference shares may be redeemed at any time after their issue (except where the Company has exercised its discretion to issue the TPS preference shares, in which case they can only be redeemed if certain adverse tax or regulatory events have occurred). The redemption price includes a make-whole adjustment to compensate the investor for the investment opportunity lost by the early redemption (except where the redemption relates to withholding tax). The TPS preference shares may also be redeemed on December 17, 2018 and on any subsequent fifth anniversary at par value of GBP1,000 per share plus the unpaid dividend for the last six month dividend period.

In a winding-up of the Company, the Trust Preferred Securities and (if issued) the TPS 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	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Trust Preferred Securities II				
Balance at beginning of year	**1,014**		**1,014**	
Issued during the year		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 (a controlled entity) 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. The securities are constituted by instruments governed by New York and Delaware law.

In certain limited circumstances, the Trust Preferred Securities will be redeemed for redeemable preference shares in the Company (TPS preference shares). The circumstances in which the redemption for TPS preference shares will occur include if a distribution is not paid on the Trust Preferred Securities or if the Company does not maintain certain prudential regulatory standards. The Company also has discretion to redeem the Trust Preferred Securities for TPS preference shares at any time.

If issued, each holder of a TPS preference share would receive, if declared, non-cumulative dividends calculated at the same rate and payable on the same basis as apply to the Trust Preferred Securities.

If a distribution is not paid on the Trust Preferred Securities, or a dividend is not paid on the TPS preference shares, the Company cannot, with certain exceptions, pay distributions on, redeem, buy back or reduce capital on any other shares or other capital instruments of the Company that rank equally with or junior to the securities unless it has paid 12 months distributions on the securities or an optional dividend.

Holders of the TPS preference shares (if issued) would be entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders were entitled to vote) on the basis of one vote per TPS 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 TPS preference shares.

With the prior consent of APRA, the Trust Preferred Securities may be redeemed in certain limited circumstances. These circumstances are on March 23, 2015, and after March 23, 2015, any business day selected by the Company in its absolute discretion, 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. Where the redemption is due to an adverse regulatory event, the redemption price will include a make-whole adjustment to compensate the investor for the investment opportunity lost by the early redemption. The TPS preference shares may be redeemed at any time after their issue (except where the Company has exercised its discretion to issue the TPS preference shares, in which case they can only be redeemed if certain adverse tax or regulatory events have occurred or on any date on or after March 23, 2015). Where the redemption occurs prior to March 23, 2015 due to a regulatory event, the redemption price includes a make-whole adjustment to compensate the investor for the investment opportunity lost by the early redemption.

In a winding-up of the Company, the Trust Preferred Securities and (if issued) the TPS 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	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
National Capital Instruments				
Issued during the year	**397**		**397**	
Balance at end of year	**397**		**397**	

On September 18, 2006, the Group raised $400 million (prior to issuance costs) through the issue by National Australia Trustees Limited in its capacity as trustee of 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. The securities are constituted by instruments governed by Victorian and Delaware law.

In certain limited circumstances, the Australian NCIs will be redeemed for redeemable preference shares in the Company (Australian NCI Preference Shares). The circumstances in which the redemption for Australian NCI Preference Shares will occur include if a distribution is not paid on the Australian NCIs or if the Company does not maintain certain prudential regulatory standards. The Company also has discretion to redeem the Australian NCIs for Australian NCI Preference Shares at any time.

If issued, each holder of an Australian NCI Preference Share would receive, if declared, non-cumulative dividends calculated at substantially the same rate and payable on substantially the same basis as apply to the Australian NCIs.

If a distribution is not paid on the Australian NCIs, or a dividend is not paid on the Australian NCI Preference Shares, the Company cannot, with certain exceptions, pay distributions on, redeem, buy back or reduce capital on any other shares or other capital instruments of the Company that rank equally with or junior to the securities unless it has paid 12 months distributions on the securities or an optional dividend.

Holders of the Australian NCI Preference Shares (if issued) would be entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders were entitled to vote) on the basis of one vote per Australian NCI 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 Australian NCI Preference Shares.

With the prior consent of APRA, the Australian NCIs may be redeemed in certain limited circumstances. These circumstances are on September 30, 2016 and any subsequent distribution payment date after September 30, 2016.

The Australian NCI Preference Shares may be redeemed at any time after their issue (except where the Company has exercised its discretion to issue the Australian NCI Preference Shares, in which case they can only be redeemed if certain adverse tax, regulatory or acquisition events have occurred or on any date on or 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.

38 Reserves

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
General reserve	**687**	1,111	**15**	15
Asset revaluation reserve	**100**	97	**18**	18
Foreign currency translation reserve	**(135)**	(504)	**(26)**	(2)
Cash flow hedge reserve	**52**		**58**	
Equity based payments reserve	**227**	110	**227**	110
Available for sale investments reserve	**(2)**		**(2)**	
General reserve for credit losses	**135**		**363**	
Total reserves	**1,064**	814	**653**	141
Reconciliations of movements in reserves				
General reserve				
Balance at beginning of year	**1,111**	942	**15**	14
AIFRS transition adjustment	**(417)**			
Restated opening balance	**694**	942	**15**	14
Transfer from/(to) retained profits	**(7)**	169		1
Balance at end of year	**687**	1,111	**15**	15

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.

Asset revaluation reserve				
Balance at beginning of year	**97**	86	**18**	13
AIFRS transition adjustment		114		8
Restated opening balance	**97**	200	**18**	21
Revaluation of land and buildings	**11**	(6)		(3)
Tax on revaluation adjustments		3		
Transfer to retained profits	**(8)**			
Transfer to retained profits on sale of controlled entities		(100)		
Balance at end of year	**100**	97	**18**	18

The asset revaluation reserve includes revaluation increments and decrements arising from the revaluation of non-current assets in accordance with AASB 116.

Foreign currency translation reserve				
Balance at beginning of year	**(504)**	166	**(2)**	23
AIFRS transition adjustment		(166)		(23)
Restated opening balance	**(504)**		**(2)**	
Currency translation adjustments	**357**	(538)	**(24)**	(2)
Transfer from retained profits		48		
Transfer to income statement on sale of controlled entities	**12**	(14)		
Balance at end of year	**(135)**	(504)	**(26)**	(2)

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.

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	Group		Company	
	2006	**2005**	**2006**	**2005**
	$m	**$m**	**$m**	**$m**
Cash flow hedge reserve				
Balance at beginning of year				
AIFRS transition adjustment	**(3)**		**(25)**	
Restated opening balance	**(3)**		**(25)**	
Gains/(losses) on cash flow hedging instruments	**77**		**119**	
Gains/(losses) transferred to income statement	**2**			
Tax on cash flow hedging instruments	**(24)**		**(36)**	
Balance at end of year	**52**		**58**	

The cash flow hedge reserve records the fair value revaluation of derivatives and other financial instruments designated as cash flow hedging instruments (as described in note 1A(m)). Where a forecast transaction, for which cash flow hedge accounting has been previously applied no longer satisfies the hedging criteria hedge accounting is ceased. Amounts previously recorded within the cash flow hedge reserve are recognised within the income statement in line with the impact of the cash flows of the forecast transaction.

Equity based payments reserve				
Balance at beginning of year	**110**		**110**	
AIFRS transition adjustment		34		34
Restated opening balance	**110**	34	**110**	34
Current period equity based payments expense not yet vested	**136**	93	**136**	93
Tax on equity based payments	**5**		**5**	
Transfer to ordinary share capital on vesting	**(24)**	(17)	**(24)**	(17)
Balance at end of year	**227**	110	**227**	110

The equity based payments reserve records the value of equity benefits provided to employees and directors as part of their remuneration. *Refer to note 41 for further information on these plans.*

Available for sale investments reserve				
Balance at beginning of year				
Net revaluation gains/(losses)	**(2)**		**(2)**	
Balance at end of year	**(2)**		**(2)**	

The available for sale investments reserve represents the unrealised change in the fair value of available for sale investments.

General reserve for credit losses				
Balance at beginning of year				
Transfer from retained profits	**135**		**363**	
Balance at end of year	**135**		**363**	

In line with APRA s requirements, a general reserve for credit losses was established at 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.

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39 Retained profits

	Group		Company	
	2006	**2005**	**2006**	**2005**
	$m	**$m**	**$m**	**$m**
Balance at beginning of year	**13,681**	14,515	**13,445**	11,822
AIFRS transition adjustments	**(893)**	(2,020)	**(164)**	(40)
Restated opening balance	**12,788**	12,495	**13,281**	11,782
Actuarial gains/(losses) on defined benefit plans	**207**	(107)	**151**	1
Income tax on items taken directly to or transferred directly from equity	**(53)**	39	**(44)**	
Net profit attributable to members of the Company	**4,392**	3,992	**3,087**	4,253
Total available for appropriation	**17,334**	16,419	**16,475**	16,036
Transfer from/(to) general reserve	**7**	(169)		(1)
Transfer from asset revaluation reserve	**8**			
Transfer from asset revaluation reserve on sale of controlled entities		100		
Transfer to foreign currency translation reserve		(48)		
Transfer to general reserve for credit losses	**(135)**		**(363)**	
Dividends paid	**(2,499)**	(2,417)	**(2,554)**	(2,454)
Distributions on other equity instruments	**(254)**	(204)	**(139)**	(136)
Balance at end of year	**14,461**	13,681	**13,419**	13,445

40 Minority interest in controlled entities

	Group		Company	
	2006	**2005**	**2006**	**2005**
	$m	**$m**	**$m**	**$m**
Life insurance business				
Contributed equity		6,027		
Reserves		362		
Retained profits/(accumulated losses)		(165)		
Minority interest Life insurance business *(1)*		6,224		
Other				
Contributed equity	**168**			
Minority interest Other	**168**			
Total minority interest in controlled entities	**168**	6,224		

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(1) On transition to AIFRS, from October 1, 2005 the minority interest in controlled unit trusts of the life insurance companies no longer meets the definition of equity. As a result, minority interest in life insurance business has been reclassified to Managed fund units on issue within liabilities. Refer to note 35 for further information.

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41 Shares, performance options and performance rights

Shares (subject to various restrictions), performance options and performance rights are used by the Group to provide short-term and long-term incentives (STI and LTI) to employees. These incentives are an integral part of the Group s remuneration strategy in rewarding an employee s current and future contribution to the Group s performance *(refer to the remuneration report, which forms part of the report of the directors, for further information about the Group s remuneration strategy).*

The plans described below involve the provision of 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.

(a) National Australia Bank Staff Share Ownership Plan (staff share ownership plan)

The staff share ownership plan was approved by shareholders by special resolution in January 1997. *Details of issues and acquisitions under this plan (since October 1, 2003) are set out in table 1.*

This plan provides for the Board to invite any employee or non-executive director of the Group to participate in an offer under this plan. The Board may also invite any employee to apply for a loan to acquire shares or offer to have the Company provide funds to acquire shares subject to the provisions of applicable laws and regulations (including the United States *Sarbanes-Oxley Act of 2002*). No such loan has been made available to any employee since 1999. The Board determines the number of shares to be made available and the formula to be used in calculating the price per share. The Company may provide funds for a trustee to subscribe for or purchase fully paid ordinary shares in the Company on behalf of participating employees or non-executive directors (if required). The trustee must subscribe for or purchase the shares within a predetermined timeframe.

Shares acquired under this plan are held in trust, and may not be dealt with by the employee or non-executive director until a prescribed period after they were acquired, unless otherwise determined by the Board. Employees and non-executive directors receive dividends and may exercise voting rights (through the trustee, which are the same as those for other ordinary shares in the Company) in respect of the shares that are held in trust. All trust-held shares under this plan are forfeited upon termination for serious misconduct involving dishonesty. Other restrictions and forfeiture conditions may apply to the shares depending on the program under which they are offered (*as detailed below under employee offers*).

Shares must not be issued under this plan if the total number of shares issued in the last five years under the Company s employee share, performance option or performance rights plans and the total number of outstanding performance options and performance rights granted under its plans, including any proposed offer, exceed 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer. This 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 need disclosure under section 708 of the *Corporations Act* 2001 (Cth) (eg. shares provided to executive officers of the Company), otherwise than as a result of relief granted by ASIC.

Non-executive directors remuneration

Non-executive directors receive at least 10% of their fees in the form of shares. Generally this takes the form of shares issued or purchased under this plan. In some circumstances, non-executive directors purchase the shares directly. This arrangement is designed to align directors interests with shareholders interests, and provides flexibility in the remuneration structure. The shares are generally acquired twice annually, and directors may receive a greater percentage of their fees in shares (up to a total of 40%), rather than payment in cash. A director will be restricted from dealing in the shares for a restriction period of any length between one and 10 years (the period is determined taking into account directors previously stated preferences). The shares are transferred to the director on the expiration of this period, unless the director ceases to hold office earlier, or the trustee determines that certain events have occurred (eg. a takeover offer being made in relation to the Company).

Non-executive directors retirement benefit schemes

Non-executive directors of the Company and its controlled entities do not accrue a retirement benefit. Effective from January 1, 2004, accrued benefits of directors in office at October 2003 were frozen and preserved. The amount preserved was applied to a superannuation fund, a preserved cash management account and/or the acquisition of Company shares under the staff share ownership plan. The shares are held in trust under the terms of the staff share ownership plan and directors may not deal with the shares until they retire. Any dividends earned on the shares, while they are held on trust, are applied to the acquisition of further Company shares.

Employee offers

A number of offers were made to employees under this plan in 2006 as shown in table 1:

At-Risk Reward and Wealth Management Performance Reward: Australian employees may be provided a STI for individual and business performance. Employees of the Company are provided with these awards under the At-Risk Reward program, and Wealth Management employees under the similar Performance Reward program. Eligible employees are able to express a preference to be provided all or part of their reward in shares (and may express a preference for a restriction period of between one and 10 years);

Above Target STI: Effective from November 2005 employees in most countries are required to take any awards in excess of $300 ($500 for 2006) above their STI target in the form of Company shares (with a minimum one year restriction period). During the first year after allocation the shares are forfeited if the employee resigns (or upon termination for serious misconduct), or if the employee fails to pass both quality gates (behaviour and compliance) in respect of their performance review at the end of the following financial year;

Above Target STI and At Risk Reward (Executive Directors): The executive directors of the Group must be offered at least half of any annual STI reward in the form of shares, subject to requisite shareholder approval. Allocations were made to Mr John Stewart, Mr Ahmed Fahour and Mr Michael Ullmer in May 2006 following shareholder approval at the annual general meeting on January 30, 2006 in respect of STI for the financial year ended September 30, 2005. Similar approval will be sought from shareholders at the annual general meeting, to be held on January 31, 2007 in respect of STI for the financial year ended September 30, 2006 (if required);

Wealth Management Ownership: the Ownership offer provides for certain Wealth Management group employees to receive up to 5% of their notional benefit salary in shares, based on length of service (continuing an arrangement in place prior to acquisition of the MLC group), issued biannually. Individuals who have been employed by the Wealth Management group since January 1, 2003 are not eligible to participate in the Ownership offer;

Recognition Shares: the Recognition shares program was introduced in 2004, to enable retention and recognition awards to be provided in the form of shares, rather than in cash. Such awards are made on a very limited basis with executive general manager approval, to individuals in significant key roles where retention is critical over a medium-term timeframe (two to three years). Awards under the program may also be provided to individuals accepting significant project leadership or additional responsibilities for a limited period of time with no related increase in their fixed remuneration. The provision of shares under this plan is desired over the use of cash payments as it provides a stronger retention and shareholder value link to the reward. The shares are subject to forfeiture if the participant resigns or retires before specified key dates and/or milestones are not met, if the participant s performance falls below specified levels, for conduct in breach of the Company s Code of Conduct or other applicable standards set from time to time, and on termination for serious misconduct. The minimum restriction period is until the final key date or milestone has been achieved, with the employee able to choose a longer holding period of up to 10 years;

Commencement Shares: the Commencement shares program was also introduced in 2004, to enable buy-out of evidenced equity from previous employment for significant new hires. Shares are provided under this program or Commencement performance options and performance rights if more appropriate. The shares are subject to forfeiture if the participant resigns before specified key dates, for conduct in 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;

Enterprise Agreement Shares: the 2006 2009 NAB Enterprise Agreement includes provisions for the allocation of shares to designated groups of employees. The first of these allocations was made to qualifying employees in March 2006, with a subsequent allocation in June 2006 to employees who were later found to be eligible for the offer. Eligible employees were offered 4% of the value of their Total Employment Compensation at the time in the form of shares up to a maximum of $4000 per employee. Half of the shares are restricted for 12 months, and the remaining half for 24 months (from 22 March 2006), and the terms of offer include forfeiture upon resignation and on summary termination during these restriction periods. A further such offer is anticipated in March 2007 under the terms of the agreement; and

US LTI: due to changes in US legislation in January 2005, US-based employees are no longer granted performance rights as part of their LTI awards. Rather, American Depository Receipts (ADRs) which are each equivalent to 5 ordinary shares are provided to these employees and held in trust with restrictions on trading until such time as the performance hurdle attached to the shares is achieved. The hurdle and forfeiture conditions on these US LTI ADRs are similar to those that apply to the performance rights received by other employees (*described in performance rights plan below*).

In addition to previous offers under the above programs, details of some past Wealth Management offers are also included in table 1.

Wealth Management Owning Our Success: permanent Wealth Management employees participated in a program known as Owning Our Success, which rewarded them annually in the form of shares for their contribution to the improvement in the value of the Group and of Wealth Management (measured against an EVA® target for 2003 and 2004 and against overall Wealth Management business results for the 2005 performance year). Wealth Management employees will continue to participate in the Group s general employee share offers on the same basis as other Australian employees *(described in staff share allocation plan below); and*

Wealth Management Medfin: The MLC group acquired an interest in Medfin Australia Pty Ltd (Medfin) prior to the acquisition of the MLC group by the Group. Subsequently, the remaining share capital of Medfin has been acquired by the Group, which resulted in an obligation to provide retention benefits to Medfin employees by way of Company shares. The final Medfin offer was made in October 2003.

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(b) National Australia Bank Staff Share Allocation Plan (staff share allocation plan)

The staff share allocation plan was approved by shareholders by special resolution in January 1997. *Details of issues and acquisitions under this plan (since October 1, 2003) are set out in table 1.*

This plan provides for the Board to invite any employee of the Group to participate in an offer under this plan. Under this plan, the Company provides funds (if required) for a trustee to subscribe for or purchase fully paid ordinary shares in the Company on behalf of participating employees. Offers under the plan are structured so that the shares qualify for a tax-exemption up to the value of $1,000 under Division 13A of the *Income Tax Assessment Act* 1936 (Cth).

Shares must not be offered under this plan if the total number of shares issued in the last five years under the Company s employee share, performance option or performance rights plans and the total number of outstanding performance options and performance rights granted under its plans, including any proposed offer, exceed 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer. This calculation does not include offers or grants made or shares, performance options or performance rights acquired as a result of an offer or grant made to a person situated outside Australia at the time of the offer or grant which did not need disclosure under section 708 of the *Corporations Act* 2001 (Cth) (eg. shares provided to executive officers of the Company) otherwise than as a result of relief granted by ASIC.

2003 EVA® Share Offer, 2005 Mid-Year and Year-End Share Offers, and 2006 Employee Share Offer

These general employee share offers are available to eligible employees in the Group - excluding employees where similar offers are made under other plans e.g. under the NZ staff share allocation plan and UK share incentive plan as set out below. These programs are designed to offer a target $1,000 of ordinary shares to each eligible employee when the Group s performance is on target.

Prior to 2005, a measure of EVA® was used to assess Group performance for the purposes of the offers, and the offers ranged in value from $930 to $1,250 in shares, reflecting each year s Group EVA® result. No EVA® Share Offer was made in January 2005, as the Group EVA® target in respect of the year to September 30, 2004 was not achieved.

The EVA® Share Offer was discontinued in 2005, reflecting the Group s move away from EVA® as an overall measure of performance. For 2005, two Employee Share Offers (each valued at approximately $500 per employee) were based on the Group s achievements at mid-year and year-end as measured against a scorecard of objectives for the Group. An offer valued at approximately $1000 per eligible employee will be made in November 2006 to eligible employees.

Shares allocated under the general employee offers are held by the trustee for three years, or until the employee ceases his or her relevant employment (ie. ceases employment with either a company in the Group or a company that was in the Group when the shares were allocated to the employee). Employees receive dividends and may exercise voting rights (through the trustee which are the same as those for other ordinary shares in the Company) in respect of the shares, but otherwise cannot deal with the shares until the restriction period concludes. The shares are not subject to forfeiture.

(c) National Australia Bank New Zealand Staff Share Allocation Plan (NZ staff share allocation plan)

The NZ staff share allocation plan was approved by the Board in June 2005, and approved by shareholders at the 2006 annual general meeting. The plan was approved by the Commissioner of Inland Revenue as a share purchase scheme complying with sections DC12 and DC13 of the *Income Tax Act* 2004 (NZ) and enables offers to be made with benefits similar to those available under the staff share allocation plan. *Details of issues and acquisitions under this plan are set out in table 1.*

This plan provides for the Board to invite any employee of the Group based in New Zealand to participate in an offer under this plan. Under this plan, the Company provides funds (if required) to a trustee to subscribe for or purchase fully paid ordinary shares in the Company on behalf of participating employees.

2005 Mid-Year and Year-End Share Offers, and 2006 Employee Share Offer

The 2005 Mid-Year and Year-End Share Offers were made (and a November 2006 offer is to be made) under this plan to eligible employees based in New Zealand, on similar terms as in Australia, as described in (b) above. Under this plan, each eligible employee is required to pay NZ$1.00 for the whole parcel of shares offered, or the market price of the parcel, whichever is less. An employee may apply to the Board for a loan in respect of NZ$1.00, which shall be free of interest and other charges, and is repayable in accordance with the provisions of the trust deed. The shares are registered in the name of the trustee who holds them on behalf of the participating employee for the duration of the restriction period.

Participating employees receive dividends and may exercise voting rights (through the trustee which are the same as those for other ordinary shares in the Company) in respect of shares, but otherwise cannot deal with the shares until the restriction period concludes. If a participating employee leaves the Group prior to the end of the three year restriction period due to voluntary resignation or dismissal, the trustee will purchase the shares back for the lesser of the market price or the price paid by the employee for the shares (i.e. NZ $1.00 per parcel).

(d) National Share Incentive Plan UK (share incentive plan)

The share incentive plan was approved by shareholders at the 2002 annual general meeting. It is constituted under a trust deed made between the Company and National Australia Group SSP Trustee Limited (trustee) dated March 26, 2002 and the rules of this plan. *Shares acquired under this plan since October 1, 2003 are shown in table 1.*

National Partnership Share Plan

Employees in the UK are entitled to purchase up to GBP1,500 of shares each year through the National Partnership Share Plan. Participants contribute up to 10% of their gross salary, each month, and the trustee uses the contributions to acquire ordinary shares in the Company, which are then held in trust for the participants. Participants are entitled to receive dividends and exercise voting rights (through the trustee which are the same as those for other ordinary shares in the Company) in respect of the shares and there is no risk of forfeiture. A participant s shares must be withdrawn from this plan if that participant leaves the employment of one of the relevant UK controlled entities for any reason.

2003 EVA® Share Offer and 2005 Mid-Year and Year-End Share Offers, and 2006 Employee Share Offer

Under this plan, EVA® Share Offers and the 2005 Mid-Year and Year End Share Offers, offers of Free Shares were made (and a November 2006 offer is to be made) to eligible employees in the UK on similar terms as in Australia, as described in (b) above, except that the shares held in trust may be forfeited if the participant is summarily dismissed.

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Shares allocated under the above offers will only be free of UK income tax and UK National Insurance contributions if the shares are retained in this plan for five years (except if they are withdrawn earlier for certain specified reasons, eg. death, redundancy or disability).

(e) Group Profit Sharing Scheme Republic of Ireland (profit sharing scheme)

The profit sharing scheme was approved by shareholders in January 1996 and is constituted under a trust deed made between the Company and National Australia Group SSP (Republic of Ireland ROI) Trustee Limited (trustee) dated January 30, 1996.

No offers have been made under this plan since all of the Group s ROI employees left the Group on February 28, 2005 upon the sale of National Irish Bank Limited and Northern Bank Limited to Danske Bank A/S. Shares previously offered under this plan will continue to be held in trust on behalf of the relevant participants, until the end of the applicable restriction periods.

The last offers made under the plan (in respect to the performance year to September 30, 2003) are detailed in table 1. The Salary Forgone program enabled the Group s ROI employees to save on a monthly basis from their pre-tax salary and to acquire fully paid ordinary shares in the Company with these funds. Amendments to this plan in 2002 allowed for the extension of the EVA® Share Offer to ROI employees on similar terms as in Australia as described in (b) above. No offers were made under either program in respect to the performance year to September 30, 2004 as the Group EVA® target was not achieved for that year.

(f) National Australia Bank Executive Share Option Plan No. 2 (executive share option plan)

The executive share option plan was approved by shareholders by special resolution in January 1997. *All unexpired performance options granted under this plan are shown in table 2.*

The executive share option plan provides for the Board to grant performance options to executives of the Group to subscribe for fully paid ordinary shares in the Company. Each performance option is to subscribe for one fully paid ordinary share in the Company. The performance options cannot be transferred and are not quoted on the ASX. No payment is required from executives at the time of the grant. There are no voting or dividend rights attached to the performance options.

The exercise price per performance option is the market price of 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). For all grants to date, the market price is determined as the volume weighted average of the prices at which the Company s fully paid ordinary shares were traded on the ASX in the one week up to and including the relevant day.

The Board may determine such other terms for the grant of performance options consistent with ASX Listing Rules and the *Corporations Act* 2001 (Cth). The terms and conditions for all unexpired grants (i.e. since March 2000) are set out in the table on page 193.

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 (including the United States *Sarbanes-Oxley Act of 2002*). The rules of this plan provide that the rate of interest applicable to such a loan shall be the Company s base lending rate plus any margin determined by the Board. Dividends payable in respect of a loan share are applied firstly towards payment of any interest which is due, and secondly towards repayment of the principal amount outstanding under the loan.

Performance options must not be granted if the total number of shares issued in the last five years under the Company s employee share, option and performance rights plans and the total number of outstanding performance options and performance rights under its plans, including the proposed offer or grant, exceed 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer or grant. This calculation does not include offers or grants made or shares, performance options or performance rights acquired as a result of an offer or grant made to a person situated outside Australia at the time of the offer or grant or which did not need disclosure under section 708 of the *Corporations Act* 2001 (Cth) (eg. shares provided to executive officers of the Company) otherwise than as a result of relief granted by ASIC.

(g) National Australia Bank Performance Rights Plan (performance rights plan)

The performance rights plan was approved by shareholders at the 2002 annual general meeting. *All unexpired performance rights issued under this plan are shown in table 2.*

This plan provides for the Board to grant performance rights to executives of the Group to subscribe for fully paid ordinary shares in the Company. Each performance right is to subscribe for one fully paid ordinary share in the Company. The performance rights cannot be transferred and are not quoted on the ASX.

No payment is required from executives at the time of the grant, but the holder of performance rights must pay a nominal exercise price to exercise those rights. The total exercise price payable on the exercise of any rights on a particular day is $1.00, irrespective of the number of rights exercised on that day. There are no voting or dividend rights attached to the rights. The Board may determine such other terms for the grant of performance rights consistent with ASX Listing Rules and the terms of the *Corporations Act* 2001 (Cth). The terms and conditions for all unexpired grants since March 2000 are set out in the table on page 193.

Performance rights must not be granted if the total number of shares issued in the last five years under the Company s employee share, option and performance rights plans and the total number of outstanding performance options and performance rights issued under its plans, including the proposed offer or grant, exceed 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer or grant. This calculation does not include offers or grants made or shares, performance options or performance rights acquired as a result of an offer or grant made to a person situated outside Australia at the time of the offer or grant or which did not need disclosure under section 708 of the *Corporations Act* 2001 (Cth) (eg. shares provided for no consideration under the staff share allocation plan) otherwise than as a result of relief granted by ASIC.

Terms and conditions of performance options and performance rights since March 2000

Terms and conditions	**Grant dates** **March 2000 September 2001**	**June 2002**	**March 2003 June 2004**	**September 2004 December 2005**	**February 2006**	**July 2006**
Securities granted	Performance options		Performance options and performance rights			
Frequency of offers	One major annual allocation of LTI awards, with later, smaller grants (as required) generally for executives who join the Group after the annual allocation.					
Basis for determining individual LTI allocation	Based on seniority and assessed future value of the individual.		Based on individual assessments of performance and potential under the Group s annual Executive Talent Review.			
Restriction period	There is an initial restriction period of three years, when no performance testing is performed.		The restriction period may be less than three years (but always greater than two) for grants that refer to a previous performance hurdle date, eg. grants on April 2005 and July 2005 have an effective date of February 2005, and refer back to the February 2005 performance hurdle for determination of vesting. So for those grants, the restriction periods are less than three years.			
Performance testing period	The restriction period is followed by a performance period during which the performance hurdle is tested up until three months before the expiry date.				The performance hurdle is tested on 3 occasions over a 24 month performance period which ends 6 months before the expiry date.	
Expiry date of securities	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.		When an effective date is used, and the restriction period is shorter than three years (as above), then the expiry date will also be correspondingly earlier than eight years.	The securities will lapse on the fifth anniversary of the date of grant (unless an effective date and shorter restriction period applies as above).	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).	
Performance hurdle measures	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.				The previous TSR performance hurdle remains for the 80 most senior positions in the Group. The performance hurdle measure for all other employees is: for performance options - regional ROE performance and regional RCE growth against 3 to 5 year business plan, and for performance rights - Group EPS growth against a financial services peer group.	
Reasons for the performance hurdles	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.				The new performance hurdle is intended to significantly increase the line of sight between business performance and the performance outcomes for regional executive. This strongly supports the new regional business model.	
Performance hurdle peer groups (peer group listing are available at www.nabgroup.com)	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 S&P ASX100 by market capitalisation (excluding the Company and property trusts), determined as at the effective date of the grant.			Half the performance options and half the performance rights are tested against top 50 companies as shown to the left. The vesting (and exercise) of the remaining half of the securities is determined by the Company s TSR growth relative to the top 12 financial	For the 80 most senior positions in the Group, the TSR peer groups remain the same (as described to the immediate left). The new EPS growth hurdle for the performance rights for other executives uses the same financial services peer group as used in the TSR hurdle.	

			services companies in the S&P ASX200 by market capitalisation, excluding the Company determined as at the effective date of the grant.	
Rationale for peer group selection	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.		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 the outcomes for senior and other executives, and ensures that the EPS hurdle is equally challenging.
Measuring 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 (ie. vesting only occurs if there is sustained TSR performance).	Daily testing has been replaced with three separate hurdle tests at the 3rd, 4th, and 5th anniversary of the grant (or effective) date. Each test uses 30-day averaged TSR, and the available RCE, ROE, and EPS data for the Company and for each peer organisation. Each participant s allocation is divided into three equal tranches, with tranche 1 tested on the 3rd and 4th anniversaries, tranche 2 tested on the 4th and 5th anniversaries, and tranche 3 tested only once, on the 5th anniversary date. This change minimises retesting of the performance hurdle, yet maintains employee focus on the 3 to 5 year time horizon.
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 25th percentile performance of the peer group. A quarter of the securities vest at the 25th percentile. A further 1% vesting per percentile continues up to the point where half of the securities would vest at the 50th percentile, and then 2% further vesting per percentile up to 100% vesting at (and above) the 75th percentile.	No vesting occurs below the 50th percentile performance of the peer group. Half of the securities vest at the 50th percentile with 2% further vesting per percentile up to 100% being vested at (and above) the 75th percentile.	No vesting occurs below the 51st percentile performance of each peer group. Half of the securities vest at the 51st percentile with 2% further vesting per percentile up to 100% being vested at (and above) the 76th percentile.	For the TSR and EPS hurdle tests, no vesting occurs below the 51st percentile performance of each peer group. 35% of the securities vest at the 51st percentile with 2.6% further vesting per percentile up to 100% being vested at (and above) the 76th 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 being vested when RCE growth is at (or above) 120% of plan.

Lapsing of securities	Securities will lapse if unexercised on or before their expiry date as above. Securities will also generally lapse 30 days (or such shorter time as determined at the time of grant) after an executive ceases to be employed by the Group - unless the Board determines otherwise (generally only in cases of retirement, redundancy, contract completion, death, or total and permanent disablement). For some grants if an executive ceases employment with the Group as the result of death or total and permanent disablement, the securities may be automatically retained. For some grants, securities retained in such cases may be exercised before the end of the restriction period and regardless of the level of achievement of the performance hurdle.	In addition to the terms shown on the left, where the Board determines that securities may be retained at the end of an individual s employment during the restriction period, then only a pro-rated amount of securities may be retained, and for a maximum of two years from the date of cessation. This does not apply to securities provided on commencement. (Generally, the Board will allow securities to be retained in this way only in cases of retirement, redundancy, contract completion, death, or total and permanent disablement.)
Board discretion	The Board may allow security holders to exercise the securities regardless of the normal criteria if certain events occur, including a takeover offer or announcement to the holders of fully paid ordinary shares in the Company.	

Review of performance options and performance rights anticipated changes for grants from January 1, 2007

With the introduction of the Company s new regional business model, the Remuneration Committee made a number of changes to the structure of the Group s LTI plans last year, and these were implemented for grants from February 2006 as shown in the table above. The changes were designed to strengthen the alignment to shareholders, help to drive appropriate management behaviour and reinforce the ongoing cultural change agenda. They included new performance hurdles for LTI granted to executives other than those in the 80 most senior positions of the Group (whose performance hurdle remained unchanged, and will remain for 2007, based on relative TSR to two peer groups as set out in the table above). These new performance hurdles for employees below the 80 most senior positions are now being simplified into one measure.

The new measure is applicable to both performance options and performance rights, and measures Total Business Return (TBR) for each region (eg. Australia, NZ, UK, nabCapital) with target TBR set in line with each regional operating plan. TBR links growth in cash earnings (before significant items) and in return on equity (ROE) and is a combination of these two measures, and a number of different combinations of results will generate the same TBR outcome. TBR is strongly correlated with TSR growth but it can be measured on a regional basis. Performance options and performance rights are preferred over fully paid ordinary shares for this group of employees as they more closely align rewards for employees to outcomes experienced by shareholders.

Table 1 Employee share plans

Current employee share plans (1)	Issue date	No. of participants	Issue price (2)	No. of fully paid ordinary shares
Staff share ownership plan				
2003 Wealth Management Medfin offer	Oct 30, 2003	15	$30.98	5,723
2003 Wealth Management Ownership	Oct 30, 2003	2,818	$30.98	99,951
2003 Wealth Management Performance Reward	Jan 16, 2004	812	$30.25	221,008
2003 At-Risk Reward	Jan 16, 2004	361	$30.25	51,048
2003 Wealth Management Owning Our Success (EVA®)	Jan 16, 2004	3,006	$30.25	123,246
2004 Wealth Management Ownership	May 20, 2004	2,588	$28.87	109,131
2004 Wealth Management Performance Reward	May 20, 2004	12	$28.87	1,154
2004 Non-executive directors shares	June 8, 2004	7	$30.08	6,090
Recognition shares *(3)*	Jul 19, 2004	3	$29.51	23,213
Recognition shares *(3)*	Sep 29, 2004	3	$29.90	12,025
Commencement shares	Sep 30, 2004	1	$26.59	300,865
Recognition shares *(3)*	Oct 29, 2004	4	$26.59	10,464
2004 Wealth Management Ownership	Nov 4, 2004	2,372	$28.31	110,158
2004 Non-executive directors shares	Nov 11, 2004	8	$28.17	5,734
Non-executive directors retirement shares	Nov 17, 2004	11	$28.17	68,752
Recognition shares *(3)*	Nov 30, 2004	1	$27.93	2,998
Non-executive directors dividend shares	Dec 8, 2004	11	$28.13	2,024
2004 Wealth Management Performance Reward	Dec 15, 2004	725	$28.38	180,420
2004 Wealth Management Owning Our Success (WM portion)	Dec 15, 2004	1,208	$28.38	61,817
2004 At-Risk Reward	Dec 15, 2004	461	$28.38	41,076
Commencement shares	Dec 23, 2004	4	$26.59	54,381
Recognition shares *(3)*	Dec 23, 2004	10	$28.14	37,330
Recognition shares *(3)*	Feb 4, 2005	21	$28.14	5,876
2004 At-Risk Reward	Feb 15, 2005	1	$29.97	24,108
Recognition shares	Mar 18, 2005	6	$28.14	30,812
2004 At-Risk Reward	Apr 15, 2005	2	$29.07	3,538
Commencement shares	Apr 15, 2005	4	$29.07	36,210
2005 Wealth Management Ownership	May 26, 2005	2,013	$31.64	88,851

Current employee share plans (1)	Issue date	No. of participants	Issue price (2)	No. of fully paid ordinary shares
2005 Wealth Management Performance Reward	May 26, 2005	10	$31.64	2,260
Commencement shares	May 31, 2005	16	$31.52	50,689
Recognition shares *(4)*	May 31, 2005	23	$31.52	77,155
2005 Non-executive directors shares	Jun 1, 2005	9	$31.70	6,120
Non-executive directors dividend shares	July 13, 2005	11	$30.36	1,928
Commencement shares *(4)*	Sep 21, 2005	15	$31.16	20,013
Recognition shares	Oct 5, 2005	19	$33.18	22,023
Recognition shares *(4)*	Oct 5, 2005	2	$30.40	896
2005 Non-executive directors shares	Nov 22, 2005	8	$33.23	6,352
2005 Above Target STI	Nov 22, 2005	5,175	$33.23	924,425
2005 At-Risk Reward	Nov 22, 2005	766	$33.23	96,153
2005 Wealth Management Performance Reward	Nov 22, 2005	226	$33.23	59,449
Commencement shares *(4)*	Nov 22, 2005	6	$33.23	11,121
Recognition shares *(4)*	Nov 22, 2005	15	$33.23	58,732
2005 Wealth Management Ownership	Nov 22, 2005	1,809	$33.23	77,101
2005 Above Target STI	Dec 15, 2005	3	$31.72	314
2005 Wealth Management Owning Our Success (WM portion)	Dec 15, 2005	715	$31.72	40,854
Commencement shares	Dec 15, 2005	2	$31.72	4,600
Recognition shares *(4)*	Dec 15, 2005	9	$31.72	27,052
Non-executive directors dividend shares	Dec 19,2005	11	$31.77	1,893
2005 Above Target STI	Mar 17, 2006	80	$33.23	17,936
Recognition shares	Mar 17, 2006	157	$34.53	154,395
2006 Enterprise Agreement shares *(5)*	Mar 22, 2006	4,820	$36.20	478,147
Recognition shares	Apr 28, 2006	10	$37.54	12,640
Commencement shares	May 3, 2006	1	$29.93	892
Commencement shares	May 3, 2006	11	$34.53	20,735
Commencement shares	May 3, 2006	4	$37.53	11,286
2006 Non-executive directors shares	May 19, 2006	9	$36.64	7,321
2006 Wealth Management Performance Reward	May 19, 2006	4	$36.64	1,804
Recognition shares	May 19, 2006	8	$37.53	14,376
2005 Above Target STI	May 22, 2006	3	$33.23	52,277
2005 At-Risk Reward	May 22, 2006	3	$33.23	95,873
2006 Wealth Management Ownership	May 22, 2006	1,656	$36.55	66,439
2005 Above Target STI	Jun 2, 2006	5	$35.68	195
2006 Enterprise Agreement shares	Jun 2, 2006	6	$36.20	603
2005 US LTI	Jun 2, 2006	17	$35.68	42,775
2006 US LTI	Jun 2, 2006	38	$35.68	35,880
Non-executive directors dividend shares	Jul 13, 2006	10	$35.79	1,473
Commencement shares	Aug 1,2006	17	$35.50	66,199
Recognition shares	Aug 1,2006	7	$35.50	4,544
Staff share allocation plan				
2003 National EVA® Share Offer	Jan 16, 2004	24,170	$30.25	990,877
2005 Mid-Year Share Offer	Sep 19, 2005	22,654	$31.76	339,810
2005 Year End Share Offer	Dec 15, 2005	23,472	$31.72	375,486
NZ Staff share allocation plan				
2005 Mid-Year Share Offer	Sep 19, 2005	3,917	$31.76	58,755
2005 Year End Share Offer	Dec 15, 2005	4,201	$31.72	67,216
Share incentive plan (United Kingdom)				
2004 National Partnership Share Plan *(5)*	Oct 2003 Sep 2004	13,505	$29.30*(6)*	157,239

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Current employee share plans (1)	Issue date	No. of participants	Issue price (2)	No. of fully paid ordinary shares
2003 National EVA® Share Offer	Jan 16, 2004	11,687	$30.25	479,151
2005 National Partnership Share Plan *(5)*	Oct 2004 Sep 2005	12,830	$29.57*(6)*	132,127
2005 Mid-Year Share Offer	Sep 19, 2005	8,636	$31.76	129,540
2005 Year End Share Offer	Dec 15, 2005	8,833	$31.72	141,328
2006 National Partnership Share Plan *(5)*	Oct 2005 Sep 2006	2,300	$34.82*(6)*	99,290
Profit sharing scheme (Republic of Ireland)				
2003 Salary Forgone Program *(5)*	Oct 30, 2003	807	$31.27	9,757
2003 National EVA® Share Offer	Jan 16, 2004	660	$30.25	27,060

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(1) 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. Shareholders approved the issue of securities to the relevant individuals at the relevant annual general meeting. Shareholder approval for the continuation of the non-executive directors share arrangements was confirmed at the 2003 annual general meeting.

(2) The issue price is generally the weighted average market price of the Company s ordinary shares that were traded on the ASX in the week up to and including the day on which the shares were issued, but may be another day if more applicable (eg. on the last day of the applicable quarter for grouping of commencement shares).

(3) Recognition shares shown on these issue dates are to be issued and allocated over a one to three-year timeframe, depending on the specified milestones for each individual participant. The issue price and number of shares within each allocation are determined as at or around the initial offer date. The table above shows the total number of issued and allocated shares as of September 30, 2006 but does not include shares that may be issued and allocated at a later date, as outlined in the initial offer. Recognition share offers made since March 2005 involve all shares issued on the date shown, with forfeiture if milestones are not later met.

(4) Commencement and recognition shares shown on these issue dates include some shares allocated on a later date, but which use the issue price from these previous grants for determining the number of shares allocated to participants. Such allocations are made where participants should have been included in the earlier quarterly allocation, with the earlier issue price, but the individual s offer documents were not processed at the time for allocation (eg where an individual s employment commenced within an earlier quarter but documentation was not processed until the following quarterly allocation).

(5) These shares were purchased on-market.

(6) Average of monthly issue prices.

Table 2 Executive share option plan and performance rights plan

Issue date	Exercise period (1)	Exercise price of options	No. held at Sep 30, 2006	No. lapsed or cancelled during 2006 (2)	No. exercised during 2006	No. held at Sep 30, 2005	No. lapsed or cancelled during 2005 (2)	No. exercised during 2005	Fair value as at grant date
Executive share option plan									
Mar 23, 2000	Mar 23, 2003 - Mar 22, 2008	$21.29	1,316,900		735,100	2,052,000		967,000	$47,194,260
Sep 28, 2000	Sep 28, 2003 - Sep 27, 2008	$24.89	294,300		35,100	329,400		159,900	$5,168,475
Mar 23, 2001	Mar 23, 2004 - Mar 22, 2009	$27.85	8,234,200	86,750	824,350	9,145,300	7,500	666,400	$59,320,165
Sep 14, 2001	Sep 14, 2004 - Sep 13, 2009	$28.87	1,047,480	18,420	44,580	1,110,480	6,500	1,520	$6,238,100
Jun 14, 2002	Jun 14, 2005 - Jun 13, 2010	$36.14	9,796,000	375,000		10,171,000	171,000		$71,861,130
Mar 21, 2003	Mar 21, 2006 - Mar 20, 2011	$30.46	5,110,750	208,500		5,319,250	114,250		$26,964,163
Aug 8, 2003	Mar 21, 2006 - Mar 20, 2011	$30.46	125,000			125,000			$660,000
Oct 30, 2003	Mar 21, 2006 - Mar 20, 2011	$30.98	102,500			102,500			$559,725
Jan 16, 2004	Jan 16, 2007 - Jan 15, 2012	$30.25	4,760,711	178,126		4,938,837	84,388		$23,826,594
Jan 30, 2004	Jan 16, 2007 - Jan 15, 2012	$30.25	431,500	11,250		442,750	5,250		$2,203,103
Jun 25, 2004	Jan 16, 2007 - Jan 15, 2012	$30.25	156,500			156,500			$677,645

Issue date	Exercise period (1)	Exercise price of options	No. held at Sep 30, 2006	No. lapsed or cancelled during 2006 (2)	No. exercised during 2006	No. held at Sep 30, 2005	No. lapsed or cancelled during 2005 (2)	No. exercised during 2005	Fair value as at grant date
Jun 25, 2004	Jan 16, 2007 - Jan 15, 2012	$29.91	134,625			134,625			$595,043
Sep 30, 2004	Sep 1, 2007 - Aug 31, 2009	$26.59	390,625			390,625			$1,562,500
Dec 21, 2004	Sep 1, 2007 - Aug 31, 2009	$26.59	237,500			237,500			$790,875
Feb 7, 2005	Feb 7, 2008 - Feb 6, 2010	$29.93	5,030,826	461,952		5,492,778	460,601		$16,669,461
Feb 22, 2005	Feb 2, 2007 - Feb 1, 2009	$30.41	900,000			900,000			$1,386,000
Apr 18, 2005	Feb 7, 2008 - Feb 6, 2010	$28.90	147,942	7,058		155,000			$375,100
Apr 18, 2005	Feb 7, 2008 - Feb 6, 2010	$29.93	17,500			17,500			$49,000
Jul 8, 2005	Feb 7, 2008 - Feb 6, 2010	$30.40	191,375	29,000		220,375			$577,383
Jul 8, 2005	Feb 7, 2008 - Feb 6, 2010	$29.93	3,000			3,000			$8,400
Dec 19, 2005	Feb 7, 2008 - Feb 6, 2010	$31.78	60,384						$165,452
Feb 6, 2006	Feb 7, 2008 - Feb 6, 2010	$34.53	111,500						$360,145
Feb 6, 2006 *(3)*	Feb 6, 2009 - Aug 6, 2011	$34.53	7,063,326	361,222					$27,183,313
Feb 20, 2006	Feb 6, 2009 - Aug 6, 2011	$34.53	477,487	43,800					$1,887,542
Feb 22, 2006	Feb 6, 2009 - Aug 6, 2011	$34.53	443,000						$1,320,140
Mar 10, 2006	Feb 6, 2009 - Aug 6, 2012	$34.53	500,000						$1,550,000
May 3, 2006	Feb 6, 2009 - Aug 6, 2011	$34.53	51,300						$238,545
May 3, 2006	Feb 6, 2009 - Aug 6, 2011	$37.55	29,773						$111,649
Jul 31, 2006	Feb 6, 2009 - Aug 6, 2011	$34.53	16,875						$81,675
Jul 31, 2006	Feb 6, 2009 - Aug 6, 2011	$35.50	108,125						$430,337
Performance rights plan									
		$1.00*(4)*	1,277,818	52,131		1,329,949	28,567		$33,466,701

Table 2 Executive share option plan and performance rights plan

Mar 21, 2003	Mar 21, 2006 - Mar 20, 2011						
Aug 8, 2003	Mar 21, 2006 - Mar 20, 2011	$1.00*(4)*	31,250		31,250		$750,313
Oct 30, 2003	Mar 21, 2006 - Mar 20, 2011	$1.00*(4)*	25,625		25,625		$720,056
Jan 16, 2004	Jan 16, 2007 - Jan 15, 2012	$1.00*(4)*	1,175,644	49,532	1,225,176	24,846	$27,519,444
Jan 30, 2004	Jan 16, 2007 - Jan 15, 2012	$1.00*(4)*	107,874	2,814	110,688	1,312	$2,556,265

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Issue date	Exercise period (1)	Exercise price of options	No. held at Sep 30, 2006	No. lapsed or cancelled during 2006 (2)	No. exercised during 2006	No. held at Sep 30, 2005	No. lapsed or cancelled during 2005 (2)	No. exercised during 2005	Fair value as at grant date
Jun 25, 2004	Jan 16, 2007 - Jan 15, 2012	$1.00*(4)*	72,782			72,782			$1,607,754
Sep 30, 2004	Sep 1, 2007 - Aug 31, 2009	$1.00*(4)*	97,656			97,656			$1,708,980
Dec 21, 2004	Sep 1, 2007 - Aug 31, 2009	$1.00*(4)*	59,450			59,450			$838,840
Feb 7, 2005	Feb 7, 2008 - Feb 6, 2010	$1.00*(4)*	1,257,842	115,461		1,373,303	115,113		$25,526,334
Feb 22, 2005	Feb 2, 2007 - Feb 1, 2009	$1.00*(4)*	210,000			210,000			$1,547,700
Apr 18, 2005	Feb 7, 2008 - Feb 6, 2010	$1.00*(4)*	41,361	1,764		43,125			$710,700
Jul 8, 2005	Feb 7, 2008 - Feb 6, 2010	$1.00*(4)*	48,954	6,890		55,844			$1,022,504
Dec 19, 2005	Feb 7, 2008 - Feb 6, 2010	$1.00*(4)*	15,098						$258,327
Feb 6, 2006 (5)	Feb 6, 2009 - Aug 6, 2011	$1.00*(4)*	1,725,784	90,119					$46,973,561
Feb 20, 2006	Feb 6, 2009 - Aug 6, 2011	$1.00*(4)*	119,446	10,949					$3,227,137
Feb 22, 2006	Feb 6, 2009 - Aug 6, 2011	$1.00*(4)*	110,750						$1,950,308
Mar 10, 2006	Feb 6, 2009 - Aug 6, 2012	$1.00*(4)*	140,000						$2,452,800
May 3, 2006	Feb 6, 2009 - Aug 6, 2011	$1.00*(4)*	20,269						$395,448
July 31, 2006	Feb 6, 2009 - Aug 6, 2011	$1.00*(4)*	4,221						$127,179
July 31, 2006	Feb 6, 2009 - Aug 6, 2011	$1.00*(4)*	27,033						$543,904

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(1) The latest date to exercise performance options and performance rights is the last date of the exercise period. The exercise period for a particular grant may reference the grant date, or may reference an effective date, which is different to the grant date. An effective date may be used to link an executive s reward to a particular time period, eg. an effective date may be the commencement date of an individual s employment, although the securities are granted some time after commencement.

(2) Performance options and performance rights generally lapse 30 days after cessation of employment unless otherwise determined by the Board (as provided for in the terms attaching to each grant of performance options and performance rights).

(3) The grant of performance options on February 6, 2006 included 5,594,708 performance options with a non-market based performance hurdle (and fair value of $3.75 as shown in the table on page 200) and 1,829,840 performance options with a market-based performance hurdle (and fair value of $3.39). The grant of performance options on February 20, 2006 included 334,386 performance options with a non-market based performance hurdle and 186,901 performance options with a market-based performance hurdle (with the same fair values).

(4) A notional sum of $1.00 is payable by the holder on exercise of all performance rights exercised on any particular day.

(5) The grant of performance rights on February 6, 2006 included 1,365,123 performance rights with a non-market based performance hurdle (and fair value of $28.39 as shown in the table on page 200) and 450,780 performance rights with a market-based performance hurdle (and fair value of $18.23). The grant of performance rights on February 20, 2006 included 83,665 performance rights with a non-market based performance hurdle and 46,730 performance rights with a market-based performance hurdle (with the same fair values).

The market price of the Company s shares at September 30, 2006 was $36.70 (2005: $33.05, 2004: $26.98, 2003: $30.80). The volume weighted average share price during the year ended September 30, 2006 was $34.73.

Table 3 Summary of movements

	Performance options			Performance rights	
	Number		Weighted average exercise price	Number	Weighted average exercise price (1)
Equity instruments outstanding as at September 30, 2004	36,601,975	$	30.41	2,947,851	
Granted	7,486,754	$	29.87	1,856,835	
Forfeited *(2)*	863,189	$	31.16	169,838	
Exercised	1,781,120	$	24.05		
Expired					
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	
Equity instruments exercisable as at September 30, 2006	4,955,460	$	26.10		

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(1) A notional sum of $1.00 is payable by the holder on exercise of all performance rights exercised on any particular day.

(2) Performance options and performance rights generally lapse 30 days after cessation of employment unless otherwise determined by the Board (as provided for in the terms attaching to each grant of performance options and performance rights).

Fair value of performance options and performance rights

The numerical pricing model applied by the Company to value performance options and performance rights is a simulated version of the Black-Scholes method as allowed under AASB 2 Share-based Payment (AASB 2) and its international equivalents. The simulation approach allows the valuation to take into account both the probability of achieving the 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 Black-Scholes method is modified in order to incorporate the performance hurdle requirements that are integral to the number of performance options or performance rights vesting (which may be zero), and the performance option or performance rights holder s ability to exercise the performance option or performance right.

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. Other inputs to the calculation include the life of the performance option or performance rights, and the closing price of Company shares on grant date. Assumptions for the correlations and volatilities of share price returns for companies in the performance hurdle peer group are also required, but are of lesser importance to the valuation results. 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. The calculation assumes that performance rights will be exercised immediately upon the date of vesting, as there is only as nominal exercise price to pay and the holder will receive dividends on resulting shares. Conversely, it assumes that only a minimal number (10%) of performance options will be exercised prior to the expiry date (normally when employees leave the Group) as there is a substantial exercise price to pay.

The following tables show these significant assumptions for each grant of performance options and performance rights, and the resulting fair values. Where performance options and performance rights have a non-market based performance hurdle, the share-based payments expense under the accounting standards uses the no hurdle value of the performance options and performance rights multiplied by the percentage of performance options and performance rights which are expected to vest under the non-market based hurdle. The following tables therefore show a no hurdle value where the grant includes performance options and performance rights with non-market based performance hurdles. Expected time to vesting (from grant date) of each performance option and performance rights shown in the tables below is an output of the valuation model, along with the fair valuations of the performance options and performance rights.

Refer to section (f) and (g) of this note for details of the plans and the hurdles that must be achieved before the performance options and performance rights can be exercised.

Issue date	**Jul 31, 2006**	**Jul 31, 2006(1)**	**May 3, 2006**	**May 3, 2006(2)**	**Mar 10,2006(3)**	**Feb 22, 2006(4)**	**Feb 6/Feb20, 2006(5)**
Expiry date	Aug 6, 2011	Aug 6, 2011	Aug 6, 2011	Aug 6, 2011	Aug 6, 2012	Aug 6, 2011	Aug 6, 2011
Risk-free interest rate (per annum)	5.9%	5.9%	5.7%	5.7%	5.2%	5.2%	5.2%
Expected volatility of share price	15.5%	15.5%	15.0%	15.0%	15.0%	15.0%	15.0%
Closing share price on grant date	$ 35.90	$ 35.90	$ 37.24	$ 37.24	$ 33.88	$ 33.88	$ 35.06
Dividend yield (per annum)	5.0%	5.0%	5.0%	5.0%	5.3%	5.3%	5.3%
Exercise price of options	$ 35.50	$ 34.53	$ 37.55	$ 34.53	$ 34.53	$ 34.53	$ 34.53
Fair value of performance options	$ 3.98		$ 3.75	$ 4.65	$ 3.10	$ 2.98	$ 3.39
Fair value of performance rights	$ 20.12		$ 19.51	$ 19.51	$ 17.52	$ 17.61	$ 18.23
No hurdle value of performance options		$ 4.84					$ 3.75
No hurdle value of performance rights		$ 30.13					$ 28.39
Expected time to vesting *(12)*	3.52 years	3.52 years	3.77 years	3.77 years	4.60 years	4.09 years	4.09 years

Issue date	**Feb 6, 2006(6)**	**Dec 19, 2005**	**Jul 8, 2005**	**Jul 8, 2005(7)**	**Apr 18, 2005**	**Apr 18, 2005(7)**	**Feb 22, 2005(8)**
Expiry date	Feb 6, 2010	Feb 6, 2010	Feb 6, 2010	Feb 6, 2010	Feb 6, 2010	Feb 6, 2010	Feb 1, 2009
Risk-free interest rate (per annum)	5.2%	5.2%	5.1%	5.1%	5.2%	5.2%	5.4%
Expected volatility of share price	15.0%	15.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Closing share price on grant date	$ 35.06	$ 31.96	$ 30.21	$ 30.21	$ 28.36	$ 28.36	$ 29.63
Dividend yield (per annum)	5.3%	5.3%	5.8%	5.8%	5.8%	5.8%	5.8%
Exercise price of options	$ 34.53	$ 31.78	$ 30.40	$ 29.93	$ 28.90	$ 29.93	$ 30.41
Fair value of performance options	$ 3.23	$ 2.74	$ 2.62	$ 2.80	$ 2.42	$ 2.80	$ 1.54
Fair value of performance rights		$ 17.11	$ 18.31	$ 18.31	$ 16.48	$ 16.48	$ 7.37
Expected time to vesting *(12)*	2.17 years	2.37 years	2.80 years	2.80 years	3.04 years	3.04 years	2.61 years

Issue date	**Feb 7, 2005**	**Dec 21,2004**	**Sep 30, 2004**	**Jun 25, 2004**	**Jun 25,2004(9)**	**Jan 16/Jan 30, 2004(10)**	**Oct 30, 2003**
Expiry date	Feb 6, 2010	Aug 31, 2009	Aug 31, 2009	Jan 15, 2012	Jan 15, 2012	Jan 15, 2012	Mar 20, 2011
Risk-free interest rate (per annum)	5.3%	5.1%	5.5%	5.6%	5.6%	5.5%	5.6%
Expected volatility of share price	16.0%	18.0%	21.4%	20.9%	20.9%	21.7%	18.0%
Closing share price on grant date	$ 29.98	$ 28.48	$ 26.98	$ 29.86	$ 29.86	$ 29.92	$ 30.85
Dividend yield (per annum)	5.8%	5.7%	5.1%	5.3%	5.3%	5.1%	4.7%
Exercise price of options	$ 29.93	$ 26.59	$ 26.59	$ 29.91	$ 30.25	$ 30.25	$ 30.98
Fair value of performance options	$ 2.80	$ 3.33	$ 4.00	$ 4.42	$ 4.33	$ 4.71	$ 4.39
Fair value of performance rights	$ 17.15	$ 14.11	$ 17.50	$ 22.09	$ 22.09	$ 21.86	$ 22.59
Expected time to vesting *(12)*	3.23 years	3.00 years	3.18 years	3.2 years	3.2 years	3.6 years	3.0 years

Issue date	Aug 8,2003(11)	Mar 21, 2003	Jun 14, 2002	Sep 14, 2001	Mar 23, 2001	Sep 28, 2000	Mar 23, 2000
Expiry date	Mar 20, 2011	Mar 20, 2011	Jun 13, 2010	Sep 13, 2009	Mar 22, 2009	Sep 27, 2008	Mar 22, 2008
Risk-free interest rate (per annum)	5.4%	5.4%	5.9%	5.9%	5.6%	6.6%	6.1%
Expected volatility of share price	18.0%	18.0%	15.0%	24.5%	20.7%	20.8%	20.8%
Closing share price on grant date	$ 32.93	$ 30.85	$ 35.96	$ 27.40	$ 27.27	$ 25.30	$ 21.80
Dividend yield (per annum)	4.7%	4.7%	3.7%	4.8%	4.6%	3.9%	4.5%
Exercise price of options	$ 30.46	$ 30.46	$ 36.14	$ 28.87	$ 27.85	$ 24.89	$ 21.29
Fair value of performance options	$ 5.28	$ 4.51	$ 6.38	$ 5.33	$ 4.91	$ 5.89	$ 4.47
Fair value of performance rights	$ 24.01	$ 22.02					
Expected time to vesting *(12)*	3.18 years	3.6 years					

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(1) Performance options and performance rights were granted on July 31, 2006 to five individuals whose grants should have been included in the main allocation of 2006 LTI on February 6, 2006. These participants therefore received the same exercise price for their performance options.

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(2) *Performance options and performance rights were granted on May 3, 2006 to two individuals whose scheduled allocation of commencement benefits was delayed from February 2006, and joined with the following quarter s allocations for administrative purposes. These participants therefore received the February 6, 2006 exercise price for their performance options.*

(3) *Performance options and performance rights were granted on March 10, 2006 to Mr John Stewart following approval by shareholders at the annual general meeting held on January 30, 2006. For valuation purposes, the grant date of Mr Stewart s performance options and performance rights is deemed to be January 30, 2006. The exercise price of the performance options is the volume weighted average share price over the one week following the annual general meeting, in line with the main 2006 LTI grant for other employees on February 6 and February 20, 2006.*

(4) *Performance options and performance rights were granted on February 22, 2006 to Mr Ahmed Fahour and Mr Michael Ullmer following approval by shareholders at the annual general meeting held on January 30, 2006. For valuation purposes, the grant date of Mr Fahour s and Mr Ullmer s performance options and performance rights is deemed to be January 30, 2006. The exercise price of the performance options is the volume weighted average share price of the Company s ordinary shares that were traded over the one week following the annual general meeting, in line with the main 2006 LTI grant for other employees on February 6 and February 20, 2006.*

(5) *Performance options and performance rights in respect of the 2006 LTI program were granted to employees on February 6, 2006, and on February 20, 2006 in New Zealand.*

(6) *Performance options were not granted to employees based in the US in February 2005 in respect of the 2005 LTI program, due to uncertainty under new legislation in the US. The delayed performance options were granted on February 6, 2006 with a performance hurdle, performance period, and expiry date matching those which had been granted to other employees in February 2005.*

(7) *Performance options and performance rights were granted on April 18, 2005 and on July 8, 2005 to four individuals whose grants should have been included in the main allocation of 2005 LTI on February 7, 2005. These participants therefore received the same exercise price for their performance options.*

(8) *Performance options and performance rights were granted on February 22, 2005 to Mr John Stewart following approval by shareholders at the annual general meeting held on January 31, 2005. For valuation purposes the grant date of Mr Stewart s performance options and performance rights is deemed to be January 31, 2005. The exercise price of the performance options is the volume weighted average share price of the Company s ordinary shares that were traded over the one week following his commencement in the position of Group Chief Executive Officer on 2 February 2004, and the performance hurdle is the same as that which applies to the main 2004 LTI grant made to other employees on January 16 and January 30, 2004.*

(9) Performance options and performance rights were granted on June 25, 2004 to two individuals (including Mr John Stewart) whose grants were delayed from the main allocation of 2004 LTI on January 16, 2004. These participants therefore received the same exercise price for their performance options.

(10) Performance options and performance rights in respect of the 2004 LTI program were granted to employees on January 16, 2004, and on January 30, 2004 in New Zealand.

(11) Performance options and performance rights were granted to Mr John Stewart after his commencement of employment on August 8, 2003 with the same performance hurdle and exercise price for performance options as that which applies to the main 2003 LTI grant made to other employees on March 21, 2003.

(12) Expected time to vesting is measured from the grant date of the performance options and performance rights and is an output of the simulated version of the Black-Scholes method of valuation. For grants post March 2006 the expected time to vesting values shown represent the mode average and for prior grants the mean average.

Expense arising from equity-based payment transactions

AIFRS introduces the requirement for the Group to recognise an expense in respect of all equity-based remuneration (performance options, performance rights and shares issued to employees) determined with reference to the fair value of the equity instruments granted. As required by AASB 2, the fair value of performance options and performance rights is calculated using an appropriate valuation technique (described above) and the fair value of shares issued under the staff share schemes is determined by reference to the market price.

The fair value expense of each tranche of performance options, performance rights and shares granted is recognised in the profit or loss on a straight-line basis over the period that the services are received by the Group (the vesting period). For performance options and performance rights the vesting period is the expected vesting period derived from the valuation technique as described above.

Total expenses arising from equity-based payment transactions recognised during the period as part of personnel expense were as follows:

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Equity-based payment expense				
Options and rights granted under employee plans	57	41	39	27
Shares granted under employee plans	86	56	61	36
Total	143	97	100	63

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42 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. Impaired assets are included within interest-earning assets within loans and advances.

Average assets and interest income

	2006			2005		
	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	**9,561**	**450**	**4.71%**	8,524	392	4.60%
Overseas	**14,334**	**612**	**4.27%**	14,637	523	3.57%
Marketable debt securities						
Australia	**9,697**	**540**	**5.57%**	19,460	1,074	5.52%
Overseas	**15,256**	**615**	**4.03%**	16,839	690	4.10%
Loans and advances *(1)*						
Australia	**180,426**	**12,691**	**7.03%**	162,055	11,438	7.06%
Overseas	**100,294**	**7,268**	**7.25%**	97,206	6,490	6.68%
Acceptances *(2)*						
Australia	**37,874**	**2,750**	**7.26%**			
Overseas	**17**					
Other interest-earning assets						
Australia	**1,943**	**162**	**n/a**	1,112	218	n/a
Overseas	**6,289**	**465**	**n/a**	5,649	278	n/a
Average interest-earning assets and interest revenue by						
Australia	**239,501**	**16,593**	**6.93%**	191,151	13,122	6.86%
Overseas	**136,190**	**8,960**	**6.58%**	134,331	7,981	5.94%
Total average interest-earning assets and interest revenue	**375,691**	**25,553**	**6.80%**	325,482	21,103	6.48%
Average non-interest-earning assets						
Acceptances *(2)*						
Australia				20,873		
Overseas				61		
Investments relating to life insurance business *(3)*						
Australia	**51,318**			43,082		
Overseas	**496**			705		
Property, plant and equipment						
Australia	**713**			2,047		
Overseas	**1,607**			1,882		
Other assets	**35,738**			39,205		
Total average non-interest-earning assets	**89,872**			107,855		
Provision for doubtful debts						
Australia	**(1,208)**			(1,434)		

Overseas	**(755)**		(1,021)
Total average assets	**463,600**	**-**	430,882
Percentage of total average interest-earning assets applicable to overseas operations	**36.3%**		41.3%

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Average liabilities and interest expense

	2006			2005		
	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	**45,770**	**2,495**	**5.45%**	52,812	2,804	5.31%
Overseas	**54,248**	**2,826**	**5.21%**	46,591	2,273	4.88%
On-demand deposits and savings (short-term) deposits						
Australia	**58,026**	**2,577**	**4.44%**	47,437	1,820	3.84%
Overseas	**35,797**	**962**	**2.69%**	35,487	889	2.51%
Government and official institution deposits						
Australia	**478**	**15**	**3.14%**	506	12	2.37%
Overseas	**817**	**36**	**4.41%**	642	15	2.34%
Due to other banks						
Australia	**11,187**	**518**	**4.63%**	14,091	685	4.86%
Overseas	**24,231**	**1,117**	**4.61%**	29,793	1,095	3.68%
Short-term borrowings						
Australia	**21,440**	**947**	**4.42%**	16,827	584	3.47%
Overseas	**6,859**	**321**	**4.68%**	9,593	273	2.85%
Long-term borrowings						
Australia	**47,366**	**2,240**	**4.73%**	38,644	1,716	4.44%
Overseas	**4,131**	**238**	**5.76%**	1,185	67	5.65%
Liability on acceptances *(2)*						
Australia	**30,694**	**1,758**	**5.73%**			
Overseas	**17**					
Other debt issues						
Australia	**729**	**25**	**3.43%**	329	13	3.95%
Overseas	**1,012**	**58**	**5.73%**	1,250	102	8.16%
Other interest-bearing liabilities						
Australia	**19**	**201**	**n/a**	30	1,382	n/a
Overseas	**70**	**533**	**n/a**	93	429	n/a
Total average interest-bearing liabilities and interest expense by						
Australia	**215,709**	**10,776**	**5.00%**	170,676	9,016	5.28%
Overseas	**127,182**	**6,091**	**4.79%**	124,634	5,143	4.13%
Total average interest-bearing liabilities and interest expense	**342,891**	**16,867**	**4.92%**	295,310	14,159	4.79%
Average non-interest-bearing liabilities						
Liability on acceptances *(2)*						
Australia				20,873		
Overseas				61		
Deposits not bearing interest						
Australia	**7,042**			6,416		
Overseas	**4,005**			5,093		
Life insurance policy liabilities						
Australia	**42,760**			38,135		

Overseas	**337**	503
Other liabilities	**40,549**	35,685
Total average non-interest-bearing liabilities	**94,693**	106,766
Total average liabilities	**437,584**	402,076

	2006			2005		
	Average balance $m	**Interest $m**	**Average rate % pa**	**Average balance $m**	**Interest $m**	**Average rate % pa**
Average equity						
Ordinary shares	**7,662**			6,757		
National Income Securities	**1,945**			1,945		
Trust Preferred Securities	**975**			975		
Trust Preferred Securities II	**1,014**			531		
National Capital Instruments	**13**					
Contributed equity	**11,609**			10,208		
Reserves	**659**			933		
Retained profits	**13,698**			13,384		
Parent entity interest	**25,966**			24,525		
Minority interest in controlled entities	**50**			4,281		
Total average equity	**26,016**			28,806		
Total average liabilities and equity	**463,600**			430,882		
Percentage of total average interest-earning liabilities applicable to overseas operations	**37.1%**			42.2%		

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(1) *Includes loans accounted for at fair value. Refer to note 16 for further detail.*

(2) *From October 1, 2005, under AIFRS, acceptances are interest-earning assets and liability on acceptances are interest-bearing liabilities. Prior to October 1, 2005, acceptances and liability on acceptances were classified as non-interest earning and non-interest bearing, respectively.*

(3) *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).*

43 Interest rate risk

The following tables represent a breakdown, by region and 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. As interest rates change over time, the Group may be exposed to reduced 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.

Life insurance investment assets have been included in the following tables. The interest income on these assets supports the life insurance policies issued by the Group s life insurance business and does not contribute to market risk within the Group s banking operations. The assets and liabilities held in the statutory funds are subject to restrictions of the *Life Insurance Act* 1995 (Cth) *(refer to note 1A(w) and 1A(aa).*

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 42.

Off-balance sheet items include undrawn lending commitments and the notional value of derivatives. For details of derivatives refer to note 11 for 2006 disclosures and note 58 for 2005 disclosures.

	Repricing period/contract maturity							Non-interest-earning/ bearing $m	Total $m	Weighted average effective interest rate % pa
	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			
Australia 2006										
Assets										
Cash and liquid assets	618							2,495	3,113	5.9%
Due from other banks	10,398							15	10,413	5.9%
Trading derivatives								5,748	5,748	
Trading securities	10,608								10,608	6.2%
Investments - available for sale and held to maturity	601								601	6.0%
Investments relating to life insurance business	800	388	279	100	186	43	11,458	41,486	54,740	5.1%
Other financial assets at fair value								4,177	4,177	
Hedging derivatives								378	378	
Loans and advances	141,934	14,289	12,451	13,834	3,740	3,294	1,084	508	191,134	7.4%
Due from customers on acceptances	41,714								41,714	7.3%
Other assets								6,751	6,751	
Total assets	206,673	14,677	12,730	13,934	3,926	3,337	12,542	61,558	329,377	n/a
Liabilities and equity										
Due to other banks	16,098							284	16,382	5.9%
Trading derivatives								4,003	4,003	
Other financial liabilities at fair value								1,372	1,372	
Hedging derivatives								165	165	
Deposits and other borrowings	113,241	8,996	803	56	36	5	14	7,559	130,710	5.0%
Liability on acceptances	32,102								32,102	5.7%
Life insurance policy liabilities								46,477	46,477	
Bonds, notes and subordinated debt	9,779	35,064	3,384	3,587	2,961	1,258	4,194		60,227	5.0%
Other debt issues	334	557							891	5.3%
Other liabilities and equity								37,048	37,048	
Total liabilities and equity	171,554	44,617	4,187	3,643	2,997	1,263	4,208	96,908	329,377	n/a
Off-balance sheet items attracting interest rate sensitivity	(32,547)	31,783	(1,288)	1,742	(644)	(1,757)	2,711			
Total interest rate repricing gap	2,572	1,843	7,255	12,033	285	317	11,045	(35,350)		
Cumulative interest rate repricing gap	2,572	4,415	11,670	23,703	23,988	24,305	35,350			

	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
Australia 2005										
Assets										
Cash and liquid assets	824							1,370	2,194	5.0%
Due from other banks	3,779							38	3,817	4.1%
Trading derivatives								5,163	5,163	
Trading securities	13,010								13,010	6.1%
Investments - available for sale and held to maturity	626								626	5.7%
Investments relating to life insurance business	646	11	269	157	83	173	2,506	45,143	48,988	5.5%
Other financial assets at fair value										
Hedging derivatives										
Loans and advances	127,030	15,455	11,400	11,488	3,671	3,085	728	493	173,350	7.1%
Due from customers on acceptances								27,612	27,612	
Other assets								10,150	10,150	
Total assets	145,915	15,466	11,669	11,645	3,754	3,258	3,234	89,969	284,910	n/a
Liabilities and equity										
Due to other banks	12,697							650	13,347	5.7%
Trading derivatives								3,801	3,801	
Other financial liabilities at fair value								346	346	
Hedging derivatives										
Deposits and other borrowings	112,549	2,867	74	25	3	38	6	6,742	122,304	3.8%
Liability on acceptances								27,612	27,612	
Life insurance policy liabilities								41,608	41,608	
Bonds, notes and subordinated debt	6,449	21,393	1,437	3,367	1,605	2,881	3,229		40,361	3.5%
Other debt issues	328								328	3.0%
Other liabilities and equity								35,203	35,203	
Total liabilities and equity	132,023	24,260	1,511	3,392	1,608	2,919	3,235	115,962	284,910	n/a
Off-balance sheet items attracting interest rate sensitivity	(19,460)	18,873	(788)	(1,409)	(671)	877	2,578			
Total interest rate repricing gap	(5,568)	10,079	9,370	6,844	1,475	1,216	2,577	(25,993)		
Cumulative interest rate repricing gap	(5,568)	4,511	13,881	20,725	22,200	23,416	25,993			

	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
Europe 2006										
Assets										
Cash and liquid assets	7,611							342	7,953	4.6%
Due from other banks	9,588							97	9,685	3.8%
Trading derivatives								5,562	5,562	
Trading securities	2,109								2,109	5.0%
Investments - available for sale and held to maturity	974					23		2	999	5.9%
Investments relating to life insurance business										
Other financial assets at fair value	541	190	283	259	476	772	2,810		5,331	6.3%
Hedging derivatives								36	36	
Loans and advances	49,792	4,817	4,082	1,692	820	1,479	1,157	(336)	63,503	6.3%
Due from customers on acceptances								12	12	
Other assets								6,949	6,949	
Total assets	70,615	5,007	4,365	1,951	1,296	2,274	3,967	12,664	102,139	n/a
Liabilities and equity										
Due to other banks	12,687	181						27	12,895	4.4%
Trading derivatives								6,015	6,015	
Other financial liabilities at fair value	1,805	2	7	9	11	14	598	(37)	2,409	5.3%
Hedging derivatives								53	53	
Deposits and other borrowings	51,087	3,101	259	180	408	71		3,701	58,807	3.3%
Liability on acceptances								12	12	
Life insurance policy liabilities										
Bonds, notes and subordinated debt	3,513					625			4,138	5.1%
Other debt issues		704							704	7.9%
Other liabilities and equity								17,106	17,106	
Total liabilities and equity	69,092	3,988	266	189	419	710	598	26,877	102,139	n/a
Off-balance sheet items attracting interest rate sensitivity	(5,356)	4,203	505	1,816	(1,007)	142	(303)			
Total interest rate repricing gap	(3,833)	5,222	4,604	3,578	(130)	1,706	3,066	(14,213)		
Cumulative interest rate repricing gap	(3,833)	1,389	5,993	9,571	9,441	11,147	14,213			

	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
Europe 2005										
Assets										
Cash and liquid assets	1,310							3,221	4,531	3.7%
Due from other banks	9,744							12	9,756	3.9%
Trading derivatives								6,960	6,960	
Trading securities	876								876	3.5%
Investments - available for sale and held to maturity	3,275	67	213	701	1,610	495			6,361	4.6%
Investments relating to life insurance business										
Other financial assets at fair value										
Hedging derivatives										
Loans and advances	36,485	3,573	4,360	2,081	637	1,117	5,210	(434)	53,029	6.0%
Due from customers on acceptances								15	15	
Other assets								4,099	4,099	
Total assets	51,690	3,640	4,573	2,782	2,247	1,612	5,210	13,873	85,627	n/a
Liabilities and equity										
Due to other banks	14,100	184					659	21	14,964	3.4%
Trading derivatives								6,906	6,906	
Other financial liabilities at fair value	351								351	4.6%
Hedging derivatives										
Deposits and other borrowings	41,235	1,252	413	39		382	334	2,993	46,648	3.0%
Liability on acceptances								15	15	
Life insurance policy liabilities										
Bonds, notes and subordinated debt										
Other debt issues			1,231						1,231	7.9%
Other liabilities and equity								15,512	15,512	
Total liabilities and equity	55,686	1,436	1,644	39		382	993	25,447	85,627	n/a
Off-balance sheet items attracting interest rate sensitivity	(6,331)	4,741	2,221	1,761	(1,833)	(682)	123			
Total interest rate repricing gap	(10,327)	6,945	5,150	4,504	414	548	4,340	(11,574)		
Cumulative interest rate repricing gap	(10,327)	(3,382)	1,768	6,272	6,686	7,234	11,574			

	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
New Zealand 2006										
Assets										
Cash and liquid assets	295							2	297	4.2%
Due from other banks	3,258								3,258	6.5%
Trading derivatives								1,066	1,066	
Trading securities	861								861	7.4%
Investments - available for sale and held to maturity								48	48	
Investments relating to life insurance business	19							25	44	7.6%
Other financial assets at fair value	7,541	1,173	1,343	1,021	490	378	89		12,035	5.1%
Hedging derivatives								66	66	
Loans and advances	9,263	5,034	6,354	2,491	754	1,350	161		25,407	9.9%
Due from customers on acceptances										
Other assets								935	935	
Total assets	21,237	6,207	7,697	3,512	1,244	1,728	250	2,142	44,017	n/a
Liabilities and equity										
Due to other banks	1,027								1,027	6.9%
Trading derivatives								1,105	1,105	
Other financial liabilities at fair value	8,782	3,805	119	265	107	162	88		13,328	5.9%
Hedging derivatives								115	115	
Deposits and other borrowings	16,481	2,478	110	34	11	5		476	19,595	5.4%
Liability on acceptances										
Life insurance policy liabilities								(2)	(2)	
Bonds, notes and subordinated debt										
Other debt issues										
Other liabilities and equity								8,849	8,849	
Total liabilities and equity	26,290	6,283	229	299	118	167	88	10,543	44,017	n/a
Off-balance sheet items attracting interest rate sensitivity	15,307	(4,508)	(5,845)	(1,793)	(1,194)	(1,727)	(240)			
Total interest rate repricing gap	10,254	(4,584)	1,623	1,420	(68)	(166)	(78)	(8,401)		
Cumulative interest rate repricing gap	10,254	5,670	7,293	8,713	8,645	8,479	8,401			

	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
New Zealand 2005										
Assets										
Cash and liquid assets	17							747	764	6.9%
Due from other banks	662								662	6.0%
Trading derivatives								542	542	
Trading securities	1,029								1,029	7.0%
Investments - available for sale and held to maturity	602	403	1					14	1,020	6.5%
Investments relating to life insurance business								27	27	
Other financial assets at fair value										
Hedging derivatives										
Loans and advances	13,683	6,431	8,860	2,787	1,927	646	84		34,418	8.0%
Due from customers on acceptances										
Other assets								1,685	1,685	
Total assets	15,993	6,834	8,861	2,787	1,927	646	84	3,015	40,147	n/a
Liabilities and equity										
Due to other banks	1,561								1,561	4.6%
Trading derivatives								811	811	
Other financial liabilities at fair value	193								193	6.0%
Hedging derivatives										
Deposits and other borrowings	22,729	2,611	237					595	26,172	5.6%
Liability on acceptances										
Life insurance policy liabilities										
Bonds, notes and subordinated debt		98	94	68	93	86	91		530	6.5%
Other debt issues										
Other liabilities and equity								10,880	10,880	
Total liabilities and equity	24,483	2,709	331	68	93	86	91	12,286	40,147	n/a
Off-balance sheet items attracting interest rate sensitivity	14,792	(4,495)	(7,535)	(1,033)	(1,024)	(634)	(71)			
Total interest rate repricing gap	6,302	(370)	995	1,686	810	(74)	(78)	(9,271)		
Cumulative interest rate repricing gap	6,302	5,932	6,927	8,613	9,423	9,349	9,271			

	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
United States and other 2006										
Assets										
Cash and liquid assets	1,410							(5)	1,405	4.2%
Due from other banks	459		3					554	1,016	3.0%
Trading derivatives								1,008	1,008	
Trading securities	162								162	5.1%
Investments - available for sale and held to maturity	1,148	28	57						1,233	3.7%
Investments relating to life insurance business										
Other financial assets at fair value				580					580	4.1%
Hedging derivatives										
Loans and advances	1,874	441	523	635	121	166		(27)	3,733	5.4%
Due from customers on acceptances										
Other assets								115	115	
Total assets	5,053	469	583	1,215	121	166		1,645	9,252	n/a
Liabilities and equity										
Due to other banks	6,122	1,057						6	7,185	4.5%
Trading derivatives								885	885	
Other financial liabilities at fair value	1			570					571	3.3%
Hedging derivatives										
Deposits and other borrowings	12,301	435	1		19	4		405	13,165	4.7%
Liability on acceptances										
Life insurance policy liabilities										
Bonds, notes and subordinated debt	641								641	6.2%
Other debt issues	679								679	4.4%
Other liabilities and equity								(13,874)	(13,874)	
Total liabilities and equity	19,744	1,492	1	570	19	4		(12,578)	9,252	n/a
Off-balance sheet items attracting interest rate sensitivity	3	1	7	33	23	12	(79)			
Total interest rate repricing gap	(14,688)	(1,022)	589	678	125	174	(79)	14,223		
Cumulative interest rate repricing gap	(14,688)	(15,710)	(15,121)	(14,443)	(14,318)	(14,144)	(14,223)			

	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**
United States and other 2005										
Assets										
Cash and liquid assets	913							39	952	2.7%
Due from other banks	622			3				735	1,360	3.6%
Trading derivatives								1,294	1,294	
Trading securities	239								239	2.1%
Investments - available for sale and held to maturity	2,559	143		617					3,319	2.8%
Investments relating to life insurance business							94	674	768	6.9%
Other financial assets at fair value										
Hedging derivatives										
Loans and advances	1,814	430	381	593	381	269	38	(29)	3,877	4.1%
Due from customers on acceptances										
Other assets								105	105	
Total assets	6,147	573	381	1,213	381	269	132	2,818	11,914	n/a
Liabilities and equity										
Due to other banks	5,758	684						8	6,450	3.4%
Trading derivatives								1,095	1,095	
Other financial liabilities at fair value				597					597	12.7%
Hedging derivatives										
Deposits and other borrowings	15,750	1,091						592	17,433	3.4%
Liability on acceptances										
Life insurance policy liabilities								515	515	
Bonds, notes and subordinated debt	599								599	6.3%
Other debt issues										
Other liabilities and equity								(14,775)	(14,775)	
Total liabilities and equity	22,107	1,775		597				(12,565)	11,914	n/a
Off-balance sheet items attracting interest rate sensitivity	149	(140)		49			(58)			
Total interest rate repricing gap	(15,811)	(1,342)	381	665	381	269	74	15,383		
Cumulative interest rate repricing gap	(15,811)	(17,153)	(16,772)	(16,107)	(15,726)	(15,457)	(15,383)			

44 Notes to the cash flow statement

(a) Reconciliation of net profit attributable to members of the Company to net cash provided by/(used in) operating activities

	Group		Company	
	2006	**2005**	**2006**	**2005**
	$m	**$m**	**$m**	**$m**
Net profit attributable to members of the Company	**4,392**	3,992	**3,087**	4,253
Add/(deduct): Non-cash items				
Decrease/(increase) in interest receivable	**(951)**	(320)	**(703)**	(532)
Increase/(decrease) in interest payable	**1,635**	217	**1,254**	349
Increase/(decrease) in unearned income	**(101)**	176	**135**	208
Fair value movements				
Assets, liabilities and derivatives held at fair value	**1,223**	(29)	**1,156**	(110)
Net adjustment to bid/offer valuation	**5**		**5**	
Increase/(decrease) in personnel provisions	**(87)**	388	**2**	275
Increase/(decrease) in other operating provisions	**(158)**	471	**(101)**	237
Equity based payments recognised in equity or reserves	**143**	97	**143**	97
Superannuation costs - defined benefit pension plans	**(319)**	(129)	**(43)**	
Impairment losses on non-financial assets	**(9)**	20	**6**	16
Charge to provide for doubtful debts	**606**	534	**262**	294
Depreciation and amortisation expense	**773**	963	**309**	294
Revaluation losses on exchangeable capital units	**122**		**32**	
Movement in life insurance policyholder liabilities	**5,872**	7,043		
Unrealised (gain)/loss on investments relating to life insurance business	**(4,528)**	(5,676)		
Decrease/(increase) in other assets	**6**	(268)	**(22)**	(236)
Increase/(decrease) in other liabilities	**(65)**	(952)	**169**	(697)
Increase/(decrease) in income tax payable	**109)**	795	**242**	117
Increase/(decrease) in deferred tax liabilities	**(129)**	(127)	**(117)**	32
Decrease/(increase) in deferred tax assets	**214**	(271)	**(3)**	(284)
Add/(deduct): Operating cash flows items not included in profit	**(18,832)**	(16,745)	**(15,319)**	(9,869)
Add/(deduct): Investing or financing cash flows included in profit				
(Profit)/loss on sale of controlled entities, before income tax	**(151)**	(1,354)		41
(Profit)/loss on investments classified as available for sale and held to maturity		3		(1)
(Profit)/loss on sale of property, plant equipment and other assets	**(11)**	(53)	**6**	(1)
Net cash provided by/(used in) operating activities	**(10,241)**	(11,225)	**(9,500)**	(5,517)

(b) Reconciliation of cash and cash equivalents

For the purposes of reporting cash flows, cash and cash equivalents include cash and liquid assets, due from other banks and due to banks.

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:

Cash and liquid assets (excluding money at short call)	**12,768**	7,881	**5,913**	3,334

Treasury and other eligible bills	**167**	99		
Due from other banks (excluding mandatory deposits with supervisory central banks)	**24,248**	15,465	**19,509**	16,158
	37,183	23,445	**25,422**	19,492
Due to other banks	**(37,489)**	(35,904)	**(33,015)**	(32,605)
Total cash and cash equivalents	**(306)**	(12,459)	**(7,593)**	(13,113)

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(c) Non-cash financing and investing activities

	Group		Company	
	2006 **$m**	**2005** **$m**	**2006** **$m**	**2005** **$m**
New share issues				
Dividend reinvestment plan	**198**	205	**198**	205
Bonus share plan	**107**	132	**107**	132
Movement in assets under finance lease	**22**	(12)	**20**	(5)

(d) Financing arrangements

The Group held no standby lines of credit or other financing arrangements for the 2006 and 2005 years.

(e) Sales of controlled entities

The following sales were made during the last two years to September 30, 2006:

On July 31, 2006, the Group s Custom Fleet business was sold, accounting proceeds on sale were $571 million (subject to final adjustments) (the Group s Custom Fleet business was included within the Australia Region, United Kingdom Region and New Zealand Region business segments);

On May 8, 2006, MLC Asia businesses were sold, accounting proceeds on sale were $565 million (this business was included within the Australia Region business segment);

On January 31, 2006, BNZ Investment Management Limited was sold, accounting proceeds on sale were $8 million (this business was included within the New Zealand Region business segment);

On February 28, 2005, National Europe Holdings (Ireland) Limited, the immediate parent entity of Northern Bank Limited and National Irish Bank Limited, was sold for cash consideration of $2,493 million (this business was included within the United Kingdom Region business segment); and

On January 31, 2005, MLC Limited sold 66% of the share capital of Advance MLC Assurance Co. Limited for cash consideration of $2 million (this business was included within the Australia Region business 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 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
Consideration received (cash and receivables to be discharged in cash)	**1,144**	2,495		
Net assets of controlled entities sold				
Cash and liquid assets	**60**	1,043		
Due from other banks		1,053		
Investment - held to maturity		691		
Investments relating to life insurance business	**822**	3		
Loans and advances	**148**	13,333		
Property, plant and equipment	**2,019**	194		
Other assets	**294**	346		
Due to other banks		(2,113)		
Life policy liabilities	**(583)**			
Deposits and other borrowings		(12,340)		
Provisions	**(65)**	(78)		
Defined benefit pension scheme liabilities		(290)		
Bonds, notes and subordinated debt	**(43)**			
Other liabilities	**(2,099)**	(877)		
Total net assets of controlled entities sold	**553**	965		
Goodwill	**344**	13		
Foreign currency translation reserve relating to controlled entities sold	**12**	(14)		
Transaction costs on disposal of controlled entities sold (including provision & warranties recognised)	**84**	177		41
Total costs of disposal of controlled entities sold	**993**	1,141		41
Profit/(loss) on sale of controlled entities before income tax	**151**	1,354		(41)

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45 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
BNZ Life Insurance Limited	100	New Zealand
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 46 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	*C.B.C. Properties Limited*	*NBA Leasing Pty Limited*
Australian Banks Export Re-Finance	*Commercial Nominees Pty Limited*	*NBA Properties (Qld) Limited*

Corporation Limited	*National Australia Investment Brokers Limited*	*NBA Properties (Vic) Limited*
C.B.C. Holdings Limited	*National Nominees (London) Limited*	*VPL Securities Pty Limited*

Section 323D(3) of the *Corporation 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.

46 Contingent liabilities and credit commitments

The following table shows the level of the Group s contingent liabilities as at September 30:

	Group				Company			
	Notional amount (1)		**Credit equivalent (2)**		**Notional amount (1)**		**Credit equivalent (2)**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Contingent liabilities								
Guarantees	**3,082**	3,500	**3,082**	3,500	**5,531**	6,222	**5,531**	6,222
Standby letters of credit	**6,338**	6,753	**6,338**	6,753	**5,759**	5,939	**5,759**	5,939
Documentary letters of credit	**523**	471	**105**	95	**397**	377	**80**	77
Performance-related contingencies	**3,614**	2,695	**1,807**	1,347	**2,879**	2,186	**1,449**	1,102
Other	**193**	142	**193**	142	**191**	112	**191**	112
Total contingent liabilities *(3)*	**13,750**	13,561	**11,525**	11,837	**14,757**	14,836	**13,010**	13,452

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(1) The notional amount represents the maximum credit risk.

(2) The credit equivalent amount records the estimated maximum or total potential loss if the counterparty were to default, and is determined in accordance with APRA s risk-weighted capital adequacy guidelines. These credit equivalents are then weighted in the same manner as balance sheet assets according to counterparty for capital adequacy purposes. (For additional information, refer to capital adequacy information in the financial review section of this annual financial report.)

(3) 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.

Credit-related commitments

Underwriting facilities	**60**		**30**		**60**		**30**	
Binding credit commitments *(1)*	**128,198**	112,549	**24,246**	22,268	**85,970**	76,446	**19,695**	19,200
Total credit-related commitments	**128,258**	112,549	**24,276**	22,268	**86,030**	76,446	**19,725**	19,200

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(1) Includes the notional amount and the credit equivalent for credit derivatives where the Group has sold credit protection.

Investment commitments

Statutory funds *(1)*	**1,040**	742	**1,040**	742
Total investment commitments	**1,040**	742	**1,040**	742

(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.*

Other commitments contracted for as at the reporting date are set out below:

	Group		Company	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**
Information technology and telecommunication services				
Less than 1 year	**140**	177	**113**	150
One to five years	**20**	160		113
Total information technology and telecommunication services	**160**	337	**113**	263
Operational, property and support services				
Less than 1 year	**204**	200	**114**	166
One to five years	**181**	377	**166**	280
Total operational, property and support services	**385**	577	**280**	446

(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.

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(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).

(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 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 unauthorized foreign currency options trading matter and Homeside US.

During the 2003 and prior fiscal 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 unauthorized foreign currency options trading announced in January 2004. In the investigation of these losses, it was found that, in the Institutional Markets & Services division, 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 continues to cooperate 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 U.S. 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.

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.

The ATO has also informed the Group that it is proposing to issue amended assessments to disallow deductions claimed for the payment of management fees associated with the ExCaps for the years 1997 to 2003. The total primary tax amount in relation to these deductions is, approximately, $9 million. Interest and penalties may also apply.

In accordance with ATO practice on disputed assessments, the Group has paid 50% of the amounts owing under the amended assessments. 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 $20 million (2005: $31 million) has been recognised in determining income tax expense for the 2006 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 Company continues to consider opportunities to resolve this matter.

(vi) Contingent liability amended assessment 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, 2006, interest of NZ$149 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, 2006.

(vii) Contingent liability Wealth Management reinsurance

As a result of a review by the ATO, the Australian Wealth Management business received a position paper from the ATO on April 6, 2006 in relation to a reinsurance contract entered into in the 1998 tax year and amended in the 2000 tax year. The position paper expresses the preliminary view that certain expenditure incurred under the reinsurance contract was not deductible under certain technical provisions of the tax law.

The Group has submitted its response to the ATO position paper. The Group believes, based on the work completed to date, that its position in relation to the application of the tax law, applicable at that time, to this transaction is correct.

The primary tax in relation to the expenditure claimed is approximately $54 million. Interest and penalties may be imposed should an amended assessment be issued. An accurate assessment of any interest and penalties cannot be made at this time. The ATO review is continuing and to date no amended assessment has been received.

No amount has been provided for in relation to this matter.

(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 interlocking 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 $2,147 million (2005: $6,209 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 s as a result of losses on exposures to certain designated parties. As at September 30, 2006, 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;

commercial paper issued by National Australia Finance (Hong Kong) plc totalling GBP250 million is 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;

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 45, 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.

Closed group

	2006 $m	2005 $m
Pro forma income statement		
For the year ended September 30		
Profit before income tax expense	**4,150**	4,947
Income tax expense	**(1,030)**	(899)
Net profit	**3,120**	4,048
Pro forma balance sheet		
As at September 30		
Assets		
Cash and liquid assets	**5,996**	3,372
Due from other banks	**19,565**	16,225
Trading derivatives	**12,311**	13,416
Trading securities	**12,873**	14,101
Investments - available for sale	**965**	3,234
Investments - held to maturity	**883**	2,425
Other financial assets at fair value	**780**	
Hedging derivatives	**383**	
Loans and advances	**199,515**	175,629
Due from customers on acceptances	**41,714**	27,612
Property, plant and equipment	**1,009**	962
Investments in controlled entities and joint venture entities	**15,901**	11,622
Goodwill and other intangible assets	**336**	341
Deferred tax assets	**1,059**	952
Other assets	**30,833**	31,700
Total assets	**344,123**	301,591
Liabilities		
Due to other banks	**33,015**	32,605
Trading derivatives	**10,998**	11,642
Other financial liabilities at fair value	**3,509**	637
Hedging derivatives	**179**	
Deposits and other borrowings	**157,664**	144,842
Liability on acceptances	**32,102**	27,612
Current tax liabilities	**526**	19
Provisions	**1,045**	1,137
Bonds, notes and subordinated debt	**55,513**	38,108
Other debt issues	**334**	328
Defined benefit pension scheme liabilities	**32**	101
Deferred tax liabilities	**420**	1,012
Other liabilities	**22,632**	19,217
Total liabilities	**317,969**	277,260
Net assets	**26,154**	24,331
Equity		
Contributed equity	**11,796**	10,532
Reserves	**618**	49
Retained profits	**13,740**	13,750
Total equity (parent entity interest)	**26,154**	24,331
Total equity	**26,154**	24,331

47 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 and forward rate agreements.

There were no transactions for which cash flow hedge accounting had to be ceased in 2006 as a result of the hedge accounting criteria no longer being met. The fair value of derivatives entered into as part of trading and hedging activities is disclosed in note 11. The fair value of derivatives deferred within the cash flow hedge reserve to hedge forecast future cash flows is disclosed in note 38.

(c) Hedge of net investments in foreign operations

At September 30, 2006, a borrowing of 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 Bank. 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 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 (ie. 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 (ie. 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.

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(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.

Geographical concentrations of assets, liabilities and off-balance sheet items

The following table incorporates AASB 132 credit risk disclosures, AASB 130 geographical concentrations of assets and liabilities and AASB 114 secondary segment disclosures:

			2006		
	Total revenue $m	**Total assets $m**	**Total liabilities $m**	**Capital expenditure $m**	**Credit commitments $m**
Australia	26,787	329,377	306,932	850	67,106
Europe	6,671	102,139	90,605	450	38,922
New Zealand	3,603	44,017	35,786	276	12,046
United States	414	5,424	11,709		9,817
Asia	760	3,828	11,781	1	367
Total	38,235	484,785	456,813	1,577	128,258

			2005		
	Total revenue $m	**Total assets $m**	**Total liabilities $m**	**Capital expenditure $m**	**Credit commitments $m**
Australia	24,968	284,910	254,305	1,057	53,730
Europe	7,402	85,627	79,618	468	37,154
New Zealand	3,526	40,147	30,073	258	11,614
United States	361	6,969	16,765		9,842
Asia	527	4,945	10,290	10	209
Total	36,784	422,598	391,051	1,793	112,549

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 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 value at risk 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.

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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 Value at Risk (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.

The Group s traded market risk, 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.

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)**	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**	**2006 $m**	**2005 $m**
Value at risk at a 99% confidence level						
Foreign exchange risk	**1**	3	**1**	1	**4**	7
Interest rate risk	**9**	13	**5**	9	**14**	18
Volatility risk	**1**	1	**1**	1	**1**	3
Commodities risk	**1**				**2**	1
Credit risk	**1**		**1**		**4**	1
Diversification benefit	**(3)**	(3)	**(1)**		**(10)**	(10)
Total value at risk for physical and derivative positions *(1)*	**10**	14	**7**	11	**15**	20

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(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 43 for information on interest rate sensitivity).*

				2006				
	At call $m	Overdrafts $m	0 to 3 month s) $m	3 to 12 months $m	1 to 5 year s) $m	Over 5 years $m	No specific maturity $m	Total $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

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	2006							
	At call $m	Overdrafts $m	0 to 3 month s) $m	3 to 12 months $m	1 to 5 year s) $m	Over 5 years $m	No specific maturity $m	Total $m
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 insurance 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 assets/(liabilities)	(97,150)	15,487	(44,578)	13,401	13,470	139,716	(12,374)	27,972

	2005							
	At call $m	Overdrafts $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
Assets								
Cash and liquid assets	8,441							8,441
Due from other banks	4,879	43	8,964	1,257	452			15,595
Trading derivatives *(1)*							13,959	13,959
Trading securities			15,154					15,154
Investments - available for sale			2,175	380	1,302	3		3,860
Investments - held to maturity			3,359	641	3,466			7,466
Investments relating to life insurance business			667	11	693	2,637	45,775	49,783
Loans and advances	11,603	12,302	16,272	39,183	61,545	123,769		264,674
Due from customers on acceptances			26,871	756				27,627
All other assets							16,039	16,039
Total assets	24,923	12,345	73,462	42,228	67,458	126,409	75,773	422,598
Liabilities								
Due to other banks	15,713	34	15,951	3,493	472	659		36,322
Trading derivatives *(1)*							12,613	12,613
Other financial liabilities at fair value							1,487	1,487
Deposits and other borrowings	99,658		87,028	22,580	2,109	1,182		212,557
Liability on acceptances			26,871	756				27,627
Life insurance policy liabilities							42,123	42,123
Bonds, notes and subordinated debt			162	4,802	28,398	8,107	21	41,490
Other debt issues							1,559	1,559
All other liabilities							15,273	15,273
Total liabilities	115,371	34	130,012	31,631	30,979	9,948	73,076	391,051
Net assets/(liabilities)	(90,448)	12,311	(56,550)	10,597	36,479	116,461	2,697	31,547

(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.

48 Fair value of financial instruments

AASB 132 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 after deducting transaction costs. 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.

The fair value of financial instruments required to be disclosed under US accounting standard SFAS 107 Disclosure about Fair Value of Financial Instruments is calculated without regard to estimated transaction costs. Such costs are not material and accordingly the fair values shown below would not differ materially from fair values calculated in accordance with SFAS 107.

		2006		2005	
	Footnote	**Carrying value $m**	**Fair value $m**	**Carrying value $m**	**Fair value $m**

Financial assets					
Cash and liquid assets	(a)	**12,768**	**12,768**	8,441	8,441
Due from other banks	(a)	**24,372**	**24,372**	15,595	15,595
Trading derivatives	(b)	**13,384**	**13,384**	13,959	13,959
Trading securities	(c)	**13,740**	**13,740**	15,154	15,154
Investments - available for sale	(c)	**1,493**	**1,493**	3,860	3,860
Investments - held to maturity	(c)	**1,388**	**1,383**	7,466	7,447
Investments relating to life insurance business	(d)	**54,784**	**54,784**	49,783	49,783
Other financial assets at fair value	(e)	**22,123**	**22,123**		
Hedging derivatives	(b)	**480**	**480**		
Loans and advances	(f)	**283,777**	**283,227**	264,674	264,447
Due from customers on acceptances	(a)	**41,726**	**41,726**	27,627	27,627
Financial liabilities					
Due to other banks	(a)	**37,489**	**37,489**	36,322	36,322
Trading derivatives	(b)	**12,008**	**12,008**	12,613	12,613
Other financial liabilities at fair value	(e)	**17,680**	**17,680**	1,487	1,487
Hedging derivatives	(b)	**333**	**333**		
Deposits and other borrowings	(g)	**222,277**	**222,265**	212,557	212,550
Liability on acceptances	(a)	**32,114**	**32,114**	27,627	27,627
Life insurance policy liabilities	(h)	**46,475**	**46,475**	42,123	42,123
Bonds, notes and subordinated debt	(i)	**65,006**	**63,628**	41,490	42,252
Other debt issues	(i)	**2,274**	**2,254**	1,559	2,440
Managed fund units on issue	(d)	**7,249**	**7,249**		
Notes in circulation	(a)	**2,759**	**2,759**	2,224	2,224

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 1A(w). 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;

(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 insurance policy liabilities** is calculated using the Margin on Services methodology as detailed in note 1A(aa);

(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 is used; and

(j) **commitments to extend credit, letters of credit and 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.

49 Operating leases

Where the Group is the lessee, the future minimum lease payment under non-cancellable operating leases are:

	Group		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
Due within 1 year	**364**	319	**254**	207
Due within 1 2 year(s)	**295**	285	**202**	183
Due within 2 3 years	**226**	223	**144**	139
Due within 3 4 years	**196**	154	**118**	90
Due within 4 5 years	**163**	129	**90**	69
Due after 5 years	**1,217**	903	**446**	317
Total non-cancellable operating lease commitments	**2,461**	2,013	**1,254**	1,005

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, 2006 is $17 million (2005: $20 million). During the 2006 year sublease payments received amounted to $22 million (2005: $27 million) and 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:

Due within 1 year	**34**	35	**34**	34
Due within 1 2 year(s)	**41**	40	**41**	39
Due within 2 3 years	**31**	30	**31**	29
Due within 3 4 years	**19**	20	**18**	19
Due within 4 5 years	**11**	10	**11**	9
Due after 5 years	**12**	7	**12**	6
Total non-cancellable operating lease receivables	**148**	142	**147**	136

50 Capital expenditure commitments

	Group	Company

	2006 $m	2005 $m	2006 $m	2005 $m
Land and buildings				
Due within 1 year	**40**	36	**35**	15
Data processing and other equipment				
Due within 1 year	**45**	29	**40**	25
Due within 1 - 5 year(s)	**1**	1	**1**	1
Other				
Due within 1 year	**12**	38	**12**	12
Total capital expenditure commitments	**98**	104	**88**	53

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51 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 share-based payment expense relating to these share issues are re-charged from the Company to the employing subsidiaries in the Group. *For further details, refer to note 41.*

Refer to note 22 for details of the Company s investment in controlled entities. Refer to note 45 for details of controlled entities. The aggregate of material amounts receivable from or payable to controlled entities, at balance date, is disclosed in balance sheet. The Company has certain guarantees and undertakings with entities in the Group which are set out in note 46.

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	
	2006 $m	**2005 $m**
Subsidiaries		
Balance at beginning of year	**15,912**	14,252
Net cash flows in amounts due from/to controlled entities	**(5,423)**	3,151
Foreign currency translation adjustments	**(335)**	(1,491)
Balance at end of year	**10,154**	15,912

Material transactions with subsidiaries for the last two years to September 30 included:

	Company	
	2006 **$m**	**2005** **$m**
Net interest revenue received from	**576**	778
Net operating lease revenue received from	**2**	26
Net management fees received from	**128**	92
Dividend revenue from	**845**	2,930

Superannuation funds

The following payments were made to superannuation funds sponsored by the Group:

	Group		Company	
Payment from Group/Company to:	**2006** **$m**	**2005** **$m**	**2006** **$m**	**2005** **$m**
National Australia Bank Group Superannuation Fund A	**139**	128	**139**	128
Clydesdale Bank Pension Scheme	**208**	66		
National Australia Bank UK Retirement Benefits Plan	**44**	21	**44**	21
Yorkshire Bank Pension Fund	**125**	52		
Bank of New Zealand Officers Provident Association				
National Wealth Management Superannuation Plan (Australia)	**13**	23		
Northern Bank Pension Scheme		12		
Northern Irish Bank Pension Scheme		2		

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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 consolidated Group

The following persons were KMP of the Company and Group during the year ended September 30, 2006:

Name	Position	Date commenced/ceased position during year
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	Executive General Manager, Group Development	
MJ Hamar	Group Chief Risk Officer	
JE Hooper	Chief Executive Officer, nabCapital	
LM Peacock	Chief Executive Officer, United Kingdom	
PL Thodey	Chief Executive Officer, Bank of New Zealand	
MA Chaney	Non-executive director, Chairman	
PA Cross	Non-executive director	Commenced December 1, 2005
PJB Duncan	Non-executive director	
RG Elstone	Non-executive director	Resigned July 5, 2006
DT Gilbert	Non-executive director	
TK McDonald	Non-executive director	Commenced December 1, 2005
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 ending September 30:

	Short-term benefits			Post-employment benefits		Equity-based benefits			
Company & Group	Cash salary fixed $	Cash STI at risk $	Non-monetary fixed $	Super-annuation fixed $	Other long term benefits $	Shares at risk $	Options and rights at risk $	Termination benefits $	Total $

KMP									
2006	**11,297,680**	**8,686,955**	**571,484**	**917,529**	**55,021**	**6,597,946**	**6,508,105**		**34,634,720**
2005	13,135,301	7,811,498	566,008	814,253	103,616	5,544,941	6,056,609	2,109,639	36,141,865

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 by Accounting Standard 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 shareholding of KMP are set out in note 52.

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) and the *United States Sarbanes-Oxley Act of 2002*.

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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 2005, the balance at the beginning of 2006 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 & Group	Terms and conditions	Balance at beginning of year (1) $	Interest charged $	Interest not charged $	Write-off $	Balance at end of year $	KMP in group during year No.
KMP							
2006	**Normal**	**1,252,225**	**52,649**			**1,028,889**	**10**
	Employee	**1,594,843**	**105,758**			**1,612,009**	**3**
2005	Normal	1,096,670	64,738			812,888	5
	Employee	1,103,351	62,072			1,555,350	3
Other related parties *(2)*							
2006	**Normal**	**13,204,576**	**927,245**			**14,966,430**	**4**
	Employee						
2005	Normal	14,805,698	843,895			12,497,150	3
	Employee						
Former KMP *(3)*							
2006	**Normal**						
	Employee						
2005	Normal	2,465,698	161,326			2,566,960	4
	Employee	1,677,369	66,171			1,237,222	4
Former other related parties *(4)*							
2006	**Normal**						
	Employee						
2005	Normal	2,522,897	165,688			2,033,887	2
	Employee						

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(1) Balance at the end of 2005 does not equal balance at beginning of 2006 because different individuals were KMP of the Company and Group between 2005 and 2006. In addition, comparatives have been restated to include arm s length ordinary course transactions with close family members of KMP that were previously exempt from disclosure.

(2) Include close family members of KMP and any entity KMP or close family members of KMP control, jointly control or significantly influence.

(3) Individuals who ceased to hold position of KMP during the relevant fiscal year.

(4) Related parties of former KMPs who ceased to hold position of KMP during the relevant fiscal year.

Details regarding KMP (and their related parties) aggregate loans above $100,000 at any time during the year ended September 30, 2006 were:

Company & Group	Terms and conditions	Balance at beginning of year (1) $	Interest charged $	Interest not charged $	Write-off $	Balance at end of year $	KMP highest indebtedness during year (2) $
KMP							
Current							
CA Clyne	Employee	509,500	35,190			558,000	561,015
PA Cross	Normal	436,832	24,781			455,653	511,955
JE Hooper	Normal		9,017			250,564	240,964
	Employee	1,079,454	70,568			1,044,687	1,089,285
PL Thodey	Normal	98,389	9,154			93,098	
	Employee	5,889				9,321	13,600
DT Gilbert *(3)*	Normal	13,895,130	935,065			15,163,527	799,611

(1) Comparatives have been restated to include arm s length ordinary course transactions with close family members of KMP that were previously exempt from disclosure.

(2) Represents aggregate highest indebtedness of KMP during the financial year.

(3) Includes business loans of entities 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.

52 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 right, including fair value, grant date, exercise period and exercise price are detailed in note 41.

(ii) 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	160,000	284,000			444,000		
JM Stewart	1,175,000	500,000			1,675,000		
MJ Ullmer	100,000	159,000			259,000		
Other senior executives							
CA Clyne	110,000	63,750			173,750		
MJ Hamar	40,000	31,250			71,250		
JE Hooper	175,000	82,344			257,344		15,000
LM Peacock	250,000	195,732			445,732		

PL Thodey	587,500	67,120		654,620	75,000

No performance options were vested and unexercisable at September 30, 2006.

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(iii) 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	40,000	71,000			111,000		
JM Stewart	278,750	140,000			418,750		
MJ Ullmer	25,000	39,750			64,750		
Other senior executives							
CA Clyne	27,500	15,938			43,438		
MJ Hamar	10,000	7,813			17,813		
JE Hooper	30,000	20,586			50,586		
LM Peacock	62,500	48,933			111,433		
PL Thodey	71,875	16,780			88,655		

No performance rights were vested and exercisable, or vested and unexercisable, at September 30, 2006.

(iv) Performance options and performance rights provided as part of remuneration

Details of the outstanding balance at September 30, 2006 of each tranche of performance options and performance rights over ordinary shares in the Company provided to each KMP of the Company and Group are set out below. Further details regarding the exercise price, exercise period and fair value are disclosed in note 41.

	Performance options					
Name	January 30/ February 6/ February 20, 2006 (1)	January 31/ February 7, 2005 (2)	December 21, 2004	September 30, 2004	June 25, 2004	January 16/ January 30, 2004 (3)
Executive directors						
A Fahour	284,000			160,000		
JM Stewart	500,000	900,000			150,000	
MJ Ullmer	159,000			100,000		
Other senior executives						
CA Clyne	63,750	55,000		55,000		
MJ Hamar	31,250		40,000			
JE Hooper	82,344	70,000				25,000
LM Peacock	195,732	100,000			25,000	75,000
PL Thodey	67,120	100,000				100,000

	Performance options				
Name	October 30, 2003	March 21/ August 8, 2003 (4)	June 14, 2002	March 23, 2001	March 23, 2000
Executive directors					
A Fahour					
JM Stewart		125,000			
MJ Ullmer					
Other senior executives					
CA Clyne					
MJ Hamar					
JE Hooper		25,000	30,000	20,000	5,000
LM Peacock	50,000				
PL Thodey		87,500	150,000	150,000	

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	Performance rights							
Name	**January 30/ February 6/ February 20, 2006 (1)**	**January 31/ February 7, 2005 (2)**	**December 21, 2004**	**September 30, 2004**	**June 25, 2004**	**January 16/ January 30, 2004 (3)**	**October 30, 2003**	**March 21/ August 8, 2003 (4)**
Executive directors								
A Fahour	71,000			40,000				
JM Stewart	140,000	210,000			37,500			31,250
MJ Ullmer	39,750			25,000				
Other senior executives								
CA Clyne	15,938	13,750		13,750				
MJ Hamar	7,813		10,000					
JE Hooper	20,586	17,500				6,250		6,250
LM Peacock	48,933	25,000			6,250	18,750	12,500	
PL Thodey	16,780	25,000				25,000		21,875

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(1) The grant date for performance options and performance rights granted to Executive Directors was January 30, 2006. All other performance options and performance rights granted to KMP as 2006 long term incentives were granted on February 6, 2006 (or on February 20, 2006 in New Zealand for Mr Thodey).

(2) The grant date for performance options and performance rights granted to Mr Stewart was January 31, 2005. All other performance options and performance rights granted to KMP as 2005 long term incentives were granted on February 7, 2005.

(3) Performance options and performance rights granted to KMP as 2004 long term incentives were granted on January 16, 2004 (or on January 30, 2004 in New Zealand for Mr Thodey).

(4) Mr Stewart s performance options and performance rights were granted on August 8, 2003 following the commencement of his employment. All other performance options and performance rights granted to KMP as 2003 long term incentives were granted on March 21, 2003.

(v) 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:

	Balance at	Granted during	Received during year on exercise of	Other	Balance

Name	at beginning year	year as remuneration (1)	performance options or rights	changes during year	at end of year
Ordinary shares					
Current					
Executive directors					
A Fahour	302,865	86,669			389,534
JM Stewart	27,373	42,206			69,579
MJ Ullmer	2,863	19,275			22,138
Other senior executives					
CA Clyne	1,015	1,876			2,891
MJ Hamar	13,403	16			13,419
JE Hooper	9,183	5,012			14,195
LM Peacock	15	17,099			17,114
PL Thodey	144	4,764		(4,748)	160

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Name	Balance at at beginning 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
Non-executive directors					
MA Chaney	20,239	1,522			21,761
PA Cross *(2)*		1,174		8,294	9,468
PJB Duncan	10,676	1,166			11,842
DT Gilbert	5,838	2,333			8,171
TK McDonald *(2)*				2,000	2,000
PJ Rizzo	2,521	652			3,173
JS Segal	6,636	2,204			8,840
JG Thorn	3,914	1,021			4,935
GA Tomlinson	34,848	4,831		(7,914)	31,765
GM Williamson	5,196			1,200	6,396
Former non-executive directors					
RG Elstone *(3)*	2,582	659		(3,241)	

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(1) Shares granted as remuneration to non-executive directors under the non-executive director s share plan (as approved by shareholders) are allotted bi-annually. Two allotments of shares to non-executive directors have been included above being the second allotment for the 2005 year on November 22, 2005 of an aggregate 6,352 shares, and the first allotment for the 2006 year on May 19, 2006 of an aggregate 7,321 shares. The second allotment for the 2006 year was allotted on November 14, 2006. Shares granted as remuneration to executive directors includes shares provided as part of short term incentive arrangements (as above target STI and at-risk reward) as approved by shareholders at the annual general meeting on January 30, 2006, and subject to the terms and conditions approved at that time by shareholders. Shares granted as remuneration to other senior executives includes shares provided as above target STI and also 16 shares each under the 2005 year-end share offer allocated in December 2005. Details of each of these programs, and the relevant terms and conditions of the shares (including the applicable restrictions and forfeiture conditions) are provided in note 41.

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

(3) Mr Elstone resigned from his position as non-executive director in July 2006 and accordingly the shareholding shown is for the period October 1, 2005 to July 5, 2006.

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:

Balance at	Granted during	Received during year on exercise of performance	Other	Balance

Name	start of year	year as remuneration	options or rights	changes during year	at end of year
National Income Securities					
Non-executive directors					
DT Gilbert	1,253				1,253
JS Segal	180				180
GA Tomlinson	500			(150)	350

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53 Remuneration of external auditor

Total fees paid or due and payable to Ernst & Young: *(1) (2)*

	Group		Company	
	2006	**2005**	**2006**	**2005**
	$ 000	**$ 000**	**$ 000**	**$ 000**
Audit fees				
Audit and review of financial statements	**18,304**	10,164	**11,087**	6,988
AIFRS audit services	**951**	3,142	**951**	2,369
Comfort letters	**332**	1,361	**332**	1,361
Total audit fees	**19,587**	14,667	**12,370**	10,718
Audit-related fees				
Regulatory	**2,879**	3,380	**1,078**	2,250
Non-regulatory	**1,420**	3,037	**931**	2,393
Total audit-related fees	**4,299**	6,417	**2,009**	4,643
Tax fees	**1,136**	1,534	**596**	459
All other fees	**1,131**	1,733	**25**	677
Total remuneration of Ernst & Young	**26,153**	24,351	**15,000**	16,497

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(1) Ernst & Young was appointed as the Group s external auditor during the year ended September 30, 2005. KPMG was the Group s external auditor for the previous corresponding years. KPMG resigned as the Group s external auditor effective January 31, 2005. During the period October 1, 2004 to January 31, 2005, KPMG performed audit work relating to the year to September 30, 2004 and provided non-audit services to the Group.

(2) 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, the audit of the annual financial statements of the Company and each of its controlled entities that are required to prepare financial statements, the review of the Group s half-year financial statements, the audit of the annual report and the provision of comfort letters to underwriters in connection with securities offerings and fees for audit services in connection with the Group s transition to AIFRS. Audit fees for 2006 include fees for 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.

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 the 2005 and 2006 years, these services include assurance services relating to the content of the Company s Basel II accreditation application to APRA, employee benefit plan audits, procedures in relation to financial disclosures by the Group such as its annual and half-year results announcements and its corporate social responsibility report, and audit-related commentary concerning financial accounting and reporting standards. For 2005, these services included procedures with regard to internal controls relating to section 404 of the *US Sarbanes-Oxley Act of 2002* (for the 2006 year such services are considered audit services).

Tax fees consist of fees for tax advisory and tax compliance services. For the 2005 and 2006 years, these services are tax services for the Group s expatriate employees and the licensing of standard tax compliance software to the Australian Wealth Management business.

All other fees consist of all other fees for services (including those required by statute or regulation). For 2005 and 2006, these services include attestation procedures regarding risk management functions as required by ASIC under the enforceable undertaking, and the sub-leasing of office space to BNZ. These services also include regulatory or compliance audits/attestations for Wealth Management entities.

In 2005, fees were paid to KPMG for the year to September 30, 2004 in relation to audit fees of $726,000, audit-related fees of $789,000, and all other fees of $18,000.

A description of the Audit Committee s pre-approval policies and procedures is set out on page 63. Further details of the non-audit services provided by Ernst & Young to the Group during 2006 and the fees paid or due and payable for those services are set out in the report of the directors.

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54 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	
	2006 **$m**	**2005** **$m**
Funds under management *(1)*	**27,256**	26,959
Funds under trusteeship	**4,227**	4,856
Funds under custody and investment administration	**473,659**	425,407

(1) 2005 comparatives have been restated to exclude $10,004 million that was included in the Group s balance sheet.

Arrangements are in place to ensure that these activities are managed independently from all other activities of the Group.

55 Life insurance business disclosures

The Group conducts its life insurance business through a number of controlled entities including National Australia Financial Management Limited (NAFiM), MLC Limited (MLC) and MLC Lifetime Company Limited (MLC Lifetime) in Australia, BNZ Life Insurance Limited in New Zealand and, until May 2006, 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.

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. Further details are set out in the various insurance statutory returns of these life insurers.

(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 2006 and 2005. 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.

	NAFiM		**MLC**		**MLC Lifetime**	
	2006 $m	**2005 $m**	**2006 $m**	**2005 $m**	**2006 $m**	**2005 $m**
Solvency reserve as at September 30	**11**	7	**73**	164	**561**	476
Assets available for solvency as at September 30	**29**	40	**310**	383	**806**	760
Coverage of solvency reserve (times)	**2.6**	5.7	**4.3**	2.3	**1.4**	1.6

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 1A(aa)). This measurement is consistent with the requirements of the applicable accounting standards, AASB 1038 for life insurance contracts, and AASB 139 and AASB 118 for life investment contracts.

(ii) Types of business and profit carriers

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.

	NAFiM		MLC and MLC Lifetime	
Discount rates	**2006**	**2005**	**2006**	**2005**
Traditional business - participating				
Ordinary	**n/a**	n/a	**5.6%***(1)*	5.3%*(1)*
Superannuation	**n/a**	n/a	**6.8%***(1)*	6.4%*(1)*
Traditional business - non-participating				
Ordinary	**5.8%***(2)*	4.4%*(2)*	**n/a**	n/a
Term life and disability income (excluding claims in payment) insurance	**5.8 - 6.1%***(2)*	4.4%*(2)*	**5.8 - 6.1%***(2)*	4.4%*(2)*
Disability business	**5.9%***(2)*	5.5%*(2)*	**5.9%***(2)*	5.5%*(2)*
Annuity business	**5.9 - 6.0%***(2)*	5.9%*(2)*	**5.9 - 6.0%***(2)*	6.0%*(2)*

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(1) *After tax.*

(2) Before tax.

(iv) Future expense inflation and indexation

Future maintenance expenses have been assumed to increase by 2.5% (2005: 2.5%) per annum rate of inflation for NAFiM, MLC and MLC Lifetime. 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.

(v) Rates of taxation

Rates of taxation in relation to the Australian life insurance business are outlined in note 1A(kk).

(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:

	NAFiM	MLC and MLC Lifetime
Traditional business	Male: 175% of IA 95-97 *(1)* Female: 175% of IA 95-97 *(1)*	Male: 90% of IA 95-97 *(1)* Female: 85% of IA 95-97 *(1)*
Term life insurance	Male/Female: 65% of IA 95-97 for non-smokers and 105% for smokers *(1)*	Male/Female: 80% of IA 95-97 for non-smokers with adjustments for smokers *(1)*
Loan cover term life insurance	Male/Female: 80% of IA 95-97 for non-smokers and 130% for smokers *(1)*	n/a
Disability income insurance	Male/Female: Rates similar to 120% for non-smokers and 150% for smokers of incidence and 112% of claim costs of IAD 89-93 *(2)*	Male: Rates similar to 120% of incidence and 120% of claim costs of IAD 89-93 *(2)* Female: Rates similar to 75% of incidence and 120% of claim costs of IAD 89-93 *(2)*
Loan cover disability income insurance	Male/Female: Rates similar to 180% for non-smokers and 225% for smokers of incidence and 112% of claim costs of IAD 89-93 *(2)*	n/a
Annuity business	Male: 61.75% + 0.95% for each year > 75 to max 95% of IM92 *(3)* Female: 47.5% + 1.5% for each year > 75 to max 100% of IF92 *(3)*	Male: 61.75% + 0.95% for each year > 75 to max 95% of IM92 *(3)* Female: 47.5% + 1.5% for each year > 75 to max 100% of IF92 *(3)*

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(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:

	NAFiM		MLC and MLC Lifetime	
Product type	**2006**	**2005**	**2006**	**2005**
Traditional business - participating				
Ordinary	**n/a**	n/a	**6.0%**	7.0%
Superannuation	**n/a**	n/a	**7.0%**	7.0%
Traditional business - non-participating				
Ordinary	**3.0%**	3.0%	**n/a**	n/a
Term life insurance	**11.0%**	11.0%	**11.0%**	10.0%
Disability insurance	**14.0%**	14.0%	**12.0%**	12.0%
Loan cover term life and disability income insurance	**30.0%**	30.0%	**n/a**	n/a
Superannuation business	**n/a**	n/a	**14.0 - 15.0%**	13.0 - 14.0%
Allocated pension business	**n/a**	n/a	**14.0%**	15.0%

(viii) Surrender values

Surrender values are based on the provision specified in policy contracts and on the current surrender value basis for traditional policies, and typically include a 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).

(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	
	2006	**2005**	**2006**	**2005**
Bonus rate on sum assured	**2.0%**	2.4%	**2.8%**	3.2%
Bonus rate on existing bonuses	**2.0%**	2.4%	**2.8%**	3.2%

(c) Disclosure of assumptions non-Australian life insurers

The policy liabilities for both MLC (Hong Kong) Limited and PT MLC Life Indonesia up until May 8, 2006, were determined in accordance with the Margin on Services method. The policy liabilities for BNZ Life Insurance Limited has been determined by its actuary in accordance with the guidelines and standards mandated by their local authorities.

(d) Effects of changes in actuarial assumptions from September 30, 2005 to September 30, 2006

	Change in future profit margins increase/ (decrease) $m	Change in net policy liabilities increase/ (decrease) $m
Assumption category		
Market related changes to discount rates	(15)	9
Non-market related changes to discount rates	5	
Maintenance expenses	(18)	
Other assumptions		3
Total	(28)	12

Risk discount rate

Where 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 benefits under life insurance contracts are contractually linked to the performance of the assets held, the life insurance liabilities are discounted using discount rates based on the market returns on assets backing life insurance liabilities.

Expense level and inflation

The current level of expenses is taken as an appropriate expense base. Expense inflation is assumed to be 2.5% (2005: 2.5%).

Tax

It has been assumed that current tax legislation and rates continue unaltered.

Mortality and morbidity

An appropriate base table of mortality is chosen for the type of product being written. From time to time an investigation into the actual experience of the group is performed and statistical methods are used to adjust the rates reflected in the table to a best estimate of mortality. An allowance is made for future mortality improvements based on trends identified in the data and in the information received from an appropriate data monitoring unit or actuarial assessment.

Discontinuance

An investigation into the actual experience over the most recent 3 years is performed and statistical methods are used to determine an appropriate discontinuance rate. An allowance is then made for any trends in the data to arrive at a best estimate of future discontinuance rates.

Interest rates

The gross interest rates used are the gross yield to redemption of benchmark government securities. For the current valuation, these are:

180 days	6.3%
5 years	5.7%
10 years	5.5%

Sensitivity analysis

Sensitivity analysis are conducted to quantify the exposure to risk of changes in the key underlying variables such as interest rates, equity prices, mortality, morbidity and inflation. 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:

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Mortality rates	For insurance contracts, providing death benefits increased, greater mortality rates would lead to higher levels of claims occurring sooner rather than anticipated, increasing associated claims cost and therefore reducing profit and shareholder equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration which they remain ill. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholder equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force.
Risk Discount Rate	An increase in the risk discount rate will increase policy liabilities for life insurance contracts where benefits are not contractually linked to performance of assets held. This will decrease profit and shareholder equity.

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:

	Change in variable	Gross (before reinsurance) Profit/(loss) $m	Gross (before reinsurance) Policy liabilities $m	Net (of reinsurance) Profit/(loss) $m	Net (of reinsurance) Policy liabilities $m
Result of change in variables					
Risk Discount Rates	1% increase in risk discount rates	(54)	78	(54)	78
Annuitant Mortality	50% increase in rate of mortality improvements	(1)	1	(1)	1
Morbidity	10% increase in disability claims cost	(21)	29	(16)	23

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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 income	Payment of specified benefits on death or ill health of policyholder	Mortality, morbidity, lapse rates
Life annuity	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	
	2006 $m	2005 $m
Sources of operating profit		
Life insurance contracts		
Emergence of shareholder planned margins	**128**	119
Experience profit/(loss)	**19**	11
Effect of changes to assumptions	**(2)**	
Reversal of capitalised losses/(losses recognised)	**(3)**	
Life investment contracts		
Fees earned	**122**	134
Investment earnings on shareholder retained profits and capital	**53**	100

	Total life insurance funds	
	2006 $m	2005 $m
Schedule of expenses		
Outward reinsurance expense	**69**	151
Claims expense	**565**	590
Change in policy liabilities	**4,456**	5,570
Policy acquisition expense		
Commission	**238**	246
Other	**132**	111
Policy maintenance expense		
Commission	**202**	175
Other	**219**	207
Investment management expense	**33**	33
Total life insurance expenses	**5,914**	7,083

56 Capital adequacy

The Group s primary prudential supervisor is APRA. APRA establishes capital adequacy requirements on 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 subordinated long-term debt.

The total amount of the resultant capital is subject to further deductions to form the 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 goodwill (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 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 capital base. The denominator of the ratio is the total risk-weighted asset exposure (ie. 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.

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. The ACE ratio is a key measure used by analysts and rating agencies 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. During the year to September 30, 2006, the Group announced changes to its Board approved target capital ranges. The changes better align the Group s capital ranges with peers and its target credit rating, and have a wider spread to accommodate the increased volatility arising from the application of AIFRS. The ranges at September 30, 2006, and comparatives at September

30, 2005 are as follows:

	Target ranges at September 30, 2006 %	Target ranges at September 30, 2005 %
ACE ratio	**4.25 - 5.00**	4.75 - 5.25
Tier 1 ratio	**6.25 - 7.00**	7.00 - 7.50
Total capital ratio	**10.00 - 10.50**	10.00 - 10.50

The total capital target range reflects the APRA imposed requirement in 2004 for the Group s internal target for capital to rise to 10.0% of risk weighted assets. Previously, the Group s internal target capital ratio was 9.0% to 9.5%.

	2006 %	2005 %
Adjusted common equity	**5.4**	5.5
Tier 1	**7.3**	7.9
Tier 2	**3.9**	3.6
Deductions	**(0.4)**	(1.0)
Total capital	**10.8**	10.5

Regulatory capital

	2006 $m	2005 $m
Tier 1 capital	**23,404**	22,779
Tier 2 capital	**12,354**	10,424
Deductions	**(1,351)**	(2,922)
Total capital	**34,407**	30,281

Risk-adjusted assets

	2006 $m	2005 $m
Total risk-adjusted assets and off-balance sheet exposures credit risk	**304,771**	276,540
Risk-adjusted assets market risk	**13,552**	13,293
Total assessed risk exposure	**318,323**	289,833

APRA required regulatory capital to be calculated in accordance with AGAAP accounting principles until July 1, 2006. As a result, 2005 comparatives are calculated under the prudential standards and guidelines applicable at the time and have not been reclassified.

Capital ratios are calculated under AGAAP at September 30, 2005 and AIFRS at September 30, 2006. During the 2006 year, the Group s ACE and Tier 1 capital ratios fell, primarily as a result of the implementation of AIFRS. AIFRS reduced the Group s Tier 1 capital by $3.6 billion mainly relating to defined benefit pension plans and Tier 1 deductions relating to capitalised software and the wealth management business. Following the revision to the Group s targets, the capital ratios are above the Group s stated target ranges at September 30, 2006.

The Tier 1 and Total Capital ratios also reflect the issue of two tranches of National Capital Instruments in September 2006. The Group raised approximately $400 million ($397 million net of issue costs) through the issue of 8,000 National Capital Instruments of $50,000 each. In addition, the Group raised EUR400 million ($679 million) through the issue of 8,000 National Capital Instruments of EUR50,000 each. These securities qualify as Tier 1 capital. An additional impact was the conversion of $566 million in exchangeable capital units into ordinary shares. Further impacts include the sale of Custom Fleet and the sale of the MLC Asia businesses.

The capital position also increased due to the reinvestment of dividends under the Company s dividend reinvestment plan (DRP), bonus share plan (BSP) and employee share and option plans. During the years ended September 30, 2006 and 2005, 9.1 million and 11.5 million fully paid ordinary shares respectively, were issued under the DRP and BSP to shareholders at varying prices. There was also significant subordinated debt issuance, contributing to Tier 2 capital.

The capital ratios also continue to be impacted by the change in methodology of the calculation of the market risk component of risk-weighted assets from an Internal Model Method to the Standard Method as directed by APRA in 2004. The Standard Method, as prescribed by APRA in Prudential Standard APS 113, limits recognition of portfolio effects on outstanding positions and is substantially more restrictive on the rules regarding the matching of positions. The effect of using the Standard Method was an increase in risk-weighted assets of $9,923 million at September 30, 2006 ($10,076 million at September 30, 2005).

57 Reconciliation with US GAAP and other US GAAP disclosures

The consolidated financial statements of the Group are prepared in accordance with AIFRS *(refer to note 1A(a))*, which differs in some respects from US GAAP.

This is the first year that the Group s financial statements have been prepared on an AIFRS basis. *Note 1B* provides an explanation and reconciliation of the transition to AIFRS from AGAAP, the prior basis of accounting.

Reconciliation of net income and shareholders equity under AIFRS and US GAAP

The Group has applied AIFRS from October 1, 2004, with the exception of the standards relating to financial instruments and insurance contracts, which are applied from October 1, 2005. Therefore the impacts of adopting AASB 132, AASB 139, AASB 1038 and AASB 4 are not included in the AIFRS 2005 comparatives and financial instruments and insurance contracts are accounted for under the prior basis of accounting as outlined in note 1.

The following tables summarise the significant adjustments to consolidated net income and shareholders equity that would result from the application of US GAAP. Comparative amounts for 2005 have been restated to include the impact of accounting policy changes *(refer to (e) below).* In addition, certain reclassifications to the US GAAP presentation are made to conform with the AIFRS presentation, as well as the inclusion of certain immaterial corrections.

		Group	
For the year ended September 30	**Footnote**	**2006 $m**	**2005 $m**
Consolidated statements of net income			
Net profit as reported under AIFRS		**4,392**	3,992
Life insurance accounting adjustments			
Life insurance	a(i)	**(180)**	(467)
Shadow policy liabilities	a(ii)	**24**	101
Deferred acquisition costs	a(iii)	**69**	75
Minority interest	a(iv)		32
Other adjustments			
Pension costs	b(iii)	**171**	(485)
Stock-based compensation	b(iv)	**(20)**	(42)
Derivatives and hedge accounting	b(v)	**181**	210
Reversal of fair value option	b(vi)	**33**	
Consolidation adjustments	b(vii)	**122**	136
Interest expense on other debt issues	b(vii)	**(115)**	(68)
Profit on sale of controlled entities	b(viii)	**(143)**	106
Restructuring provision	b(ix)	**(225)**	337
Difference in collective provision for doubtful debts	b(x)	**22**	194
Other		**(151)**	(6)
Taxation impact on reconciling items		**52**	(224)
Net income per US GAAP		**4,232**	3,891

	2006 cents	2005 cents
Per share amounts (US GAAP)		
Basic earnings per ordinary share	**259.8**	244.1
Diluted earnings per ordinary share	**256.6**	240.3

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		Group	
As at September 30		**2006** **$m**	**2005** **$m**
Shareholders equity			
Total shareholders equity as reported under AIFRS		**27,972**	31,547
Life insurance accounting adjustments			
Life insurance	a(i)	**(833)**	(1,236)
Deferred acquisition costs	a(iii)	**588**	619
Minority interest	a(iv)		(6,224)
Other adjustments			
Foreign currency denominated goodwill	b(i)	**119**	60
Goodwill	b(ii)	**178**	192
Pension costs	b(iii)	**(118)**	(76)
Derivatives and hedge accounting	b(v)	**399**	91
Reversal of fair value option	b(vi)	**(293)**	
Consolidation adjustments	b(vii)	**(1,958)**	(1,814)
Restructuring provision	b(ix)	**112**	337
Difference in collective provision for doubtful debts	b(x)		350
Revaluation surplus on land and buildings	b(xi)	**(115)**	(109)
Accumulated depreciation on revalued land and buildings	b(xi)	**102**	99
Other		**(27)**	81
Taxation impact on reconciling items		**(215)**	(532)
Total shareholders equity per US GAAP		**25,911**	23,385

The following is a summary of the significant adjustments made to the Group s AIFRS net income and total shareholders equity to reconcile to US GAAP:

(a) Life insurance accounting adjustments

(i) Life insurance

Present value of future profits (PVFP)

Upon transition to AIFRS, intangible assets arising from the acquisition of life insurance companies are generally recognised as goodwill along with some smaller amounts attributed to management rights assets. For US GAAP, a PVFP asset is recognised separately from goodwill on acquisition of life insurance companies. The PVFP asset represents the actuarially-determined present value of estimated future US GAAP profits in respect of the in-force business at acquisition. The PVFP asset is amortised over the life of the acquired in-force business.

	Group	
	2006 **$m**	**2005** **$m**
Balance at beginning of year	**1,662**	1,844
Imputed interest	**112**	130
Amortisation	**(307)**	(312)
Balance at end of year	**1,467**	1,662

The PVFP balance is estimated to be run-off at a rate ranging from 4.1% to 19.5% per year.

Life insurance policy liabilities

Under AIFRS, policy liabilities are calculated on a Margin on Services (MoS) basis for insurance business and at fair value for investment business. For US GAAP, policy liabilities are calculated under SFAS 60 Accounting and Reporting by Insurance Enterprises and SFAS 97 Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realised Gains and Losses from the Sale of Investments , depending on the type of product. Other differences relate to the parameters used to drive the discount rate and expenses, depending on the type of policy.

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Investments relating to life insurance business

Under AIFRS, all assets backing life insurance or investment contract liabilities are designated at fair value through profit and loss, with any movements in the value reflected in the income statement. For US GAAP, this treatment is not permitted and the investments are classified as available for sale or held as trading as set out in SFAS 115 Accounting for Certain Investments in Debt and Equity Securities . Where not classified as trading, AFS securities are recorded in the balance sheet at fair value, with unrealised profits and losses recorded as a separate component of shareholders equity.

(ii) Shadow policy liability

The shadow policy liabilities adjustment is required because the MoS method operates to produce liabilities that are consistent with asset values based on market value whereas US GAAP methods are consistent with historical cost accounting concepts.

(iii) Deferred acquisition costs

Deferred acquisition costs vary depending upon the nature of the policy. For insurance contracts, under AIFRS both fixed and variable costs incurred are deferrable, however, for investment contracts no costs are deferred. Whilst under US GAAP DAC is recognised for both investment and insurance contracts, US GAAP applies a narrower definition and only those variable costs directly related to the acquisition of new business may be deferred. The Group has included in the US GAAP income statement $46 million (2005: $67 million) for amortisation of deferred acquisition costs.

(iv) Minority interest

Prior to October 1, 2005, under AIFRS minority interest in the form of fund unit holders was shown as a component of total equity. Under US GAAP, minority interest is shown as a liability in the balance sheet. Any differences between the AIFRS and US GAAP profit or loss for controlled entities with a minority interest, will result in an adjustment to the US GAAP minority interest share of profit or loss. From October 1, 2005, under AIFRS these minority interests have been reclassified to liabilities as they have a claim on fund assets consolidated that does not meet the test of AIFRS equity. This is inconsistent with US GAAP only to the extent that US GAAP requires it to be disclosed in outside equity interest (as a liability not equity).

(b) Other adjustments

(i) Foreign currency denominated goodwill

On adoption of AIFRS, the Group has elected to apply an exemption available under AASB 1 and has not applied the requirements of AASB 121 The Effects of Changes in Foreign Exchange Rates retrospectively to goodwill arising in business combinations that occurred prior to October 1, 2004. In accordance with AASB 1, the Group has elected to treat such goodwill as an asset of the entity rather than as an asset of the acquiree. As such this goodwill is not translated but instead is treated as an Australian dollar denominated asset.

Under US GAAP SFAS 52 Foreign Currency Translation , foreign currency-denominated goodwill is translated at the current exchange rate at the date of the financial statements. This is on the basis that goodwill of an acquired foreign entity is always treated as an asset of the acquired foreign entity. The financial effect of the translation difference is taken to a separate component of equity. Accordingly, goodwill is retranslated at the end of each period.

(ii) Amortisation of goodwill

On transition to AIFRS at October 1, 2004, the Group ceased amortising goodwill. Under US GAAP, goodwill ceased to be amortised at October 1, 2002.

The AIFRS amortisation in the intervening period is reinstated to goodwill for US GAAP reporting. Both AIFRS and US GAAP goodwill balances are subject to annual impairment testing.

(iii) Pension and other post-retirement benefit plans

Under US GAAP, defined benefit plans are accounted for under SFAS 87 Employers Accounting for Pensions . While the requirements of this standard are broadly consistent with the policy under AIFRS *(refer note 1A(hh))*, there are a number of key differences.

Under AIFRS the Group has elected to recognise actuarial gains and losses directly in retained earnings. Under US GAAP, due to a change in accounting principle they are now immediately recognised, however these are recognised via the income statement. *(Refer (e) changes in accounting principles below).*

Included in Note 34, and set out below, are the disclosures required by SFAS 132R Employers Disclosures about Pensions and Other Post-Retirement Benefits for the Group s significant defined benefit pension plans.

	Group 2006 $m	2005 $m
Change in benefit obligation		
Benefit obligation at beginning of year	**7,102**	8,261
Current service cost	**246**	259
Interest cost	**433**	436
Actuarial losses	**165**	646
Benefits paid	**(354)**	(312)
Member contributions	**126**	82
Past service cost	**(383)**	30
Disposals and restructures		(1,864)
Foreign currency translation adjustments	**380**	(436)
Benefit obligation at end of year	**7,715**	7,102
Fair value of plan assets at end of year *(refer Note 34 for detail)*	**7,556**	6,152
Funded status	**(159)**	(950)
Net pension liability	**(159)**	(950)

The accumulated benefit obligation for the defined benefit plans was $7,710 million (2005: $5,862 million).

The benefits expected to be paid by the defined benefit plans in the next five years have been estimated based on the same assumptions used to measure the Group s benefit obligation at the end of the year:

	2007 $m	2008 $m	2009 $m	2010 $m	2011 $m	Aggregate 2012-2017 $m
Benefits expected to be paid	181	189	199	210	222	1,325

The Group s best estimate of contributions expected to be paid to defined benefit plans in 2007 is $258 million.

Weighted average assumptions	2006 %	2005 %
Discount rate (per annum)	**5.3**	5.0
Expected return on plan assets (per annum)	**6.8**	7.4
Rate of compensation increase (per annum)	**3.8**	4.2

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.

	2006 $m	2005 $m
Components of net periodic pension cost/(income)		
Current service cost	**246**	259
Interest cost	**433**	436
Expected return on plan assets	**(470)**	(475)
Plan expenses	**11**	15

Past service cost	**(383)**	30
Disposals and restructures		(314)
Contributions tax expense	**22**	20
Recognised net actuarial (gain)/loss	**(191)**	110
Net periodic pension cost/(income)	**(332)**	81

The amount shown above for disposals and restructures has been included as a component of profit on sale of controlled entities.

The Group also sponsors accumulation benefit plans (known in Australia as defined contribution plans) covering Australian, New Zealand and United Kingdom employees *(refer to note 34).*

(iv) Stock-based compensation

SFAS 123 (revised 2004) Share-Based Payment (SFAS 123R) is effective for the Group from October 1, 2005. Under SFAS 123R a share-based payment expense, determined with reference to the fair value of the equity instruments granted, is recognised over the performance or service period (requisite service period) with a corresponding entry to equity.

The Group has elected to apply SFAS 123R using the modified prospective method. Under this approach SFAS 123R applies to share-based compensation granted by the Group after October 1, 2005, or entered into after December 15, 1994 where options, rights or shares are still in their requisite service period at October 1, 2005.

SFAS 123R is consistent with share-based payment recognition under AASB 2 Share-based Payment (AASB 2) for the Group, however differences arise in terms of transition dates. AASB 2 applies to equity awards granted after November 7, 2002 still in the performance or service period at January 1, 2005. AASB 2 requires the Group to restate prior reporting periods for affected grants resulting in a transitional adjustment for October 1, 2004 and a 2005 comparative year share-based payment expense. The difference in transition dates requires the Group to make adjustments for US GAAP reconciliation purposes.

Adjustments required at September 30, 2006 for US GAAP reconciliation purposes are as follows:

adjust opening equity balances to reverse the impact of AASB 2 on prior periods; and

recognise an additional share-based payment expense for options entered into between December 15, 1994 and November 7, 2002 which are still in their requisite service period at October 1, 2005.

Prior to October 1, 2005, the Group recognised compensation costs associated with stock-based awards under the recognition and measurement principles of US Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB 25) and related interpretations. Under APB 25, the Group adopted the intrinsic value method for valuing options rights such that an expense was recognised where the quoted market price of the Company s shares at the measurement date was different to the amount, if any, that the employee was required to pay.

Pro forma 2005 net income and earnings per share disclosures as if the Group recorded compensation expense based on fair value for stock-based awards have been presented in accordance with the provisions of SFAS 148 Accounting for Stock-Based Compensation - Transition and Disclosure , and are as follows:

	2005 $m
Net income according to US GAAP as reported	3,891
Add back: Employee option compensation determined under APB 25, net of any tax effect	96
Less: Total share-based employee compensation determined under fair value-based method for all awards, net of any tax effect	(46)
Net income according to US GAAP pro forma	3,941

Basic earnings per share as reported (cents)	244.1
Basic earnings per share pro forma (cents)	247.4
Diluted earnings per share as reported (cents)	240.3
Diluted earnings per share pro forma (cents)	243.4

Following is a summary of the status of the Company s non-vested performance options and performance rights granted as employee compensation as at September 30:

	Performance options		**Performance rights**	
	Number (millions)	**Weighted-average fair value $m**	**Number (millions)**	**Weighted-average fair value $m**
Balance as at September 30, 2005	39.4	5	4.6	20
Granted during year	9.3	4	2.3	25
Vested during year	(9.4)	5		
Forfeited during year	(1.7)	4	(0.3)	21
Balance as at September 30, 2006	37.6	5	6.6	21

During the year ended September 30, 2006 the total US GAAP compensation cost of share-based payment arrangements with employees totalled $163 million. The share-based payment expense resulted in taxation benefits, representing current or future deductions, for the Group of $23 million during the 2006 financial year.

As at September 30, 2006, there was approximately $176 million of unrecognised compensation cost related to non-vested share-based payments as employee compensation. This cost is expected to be recognised over a weighted-average period of 1.6 years.

The intrinsic value of performance options exercised during the year is calculated as the difference between the exercise price of the option and the volume weighted average market rate of Company shares during the 2006 year being $34.73. The total intrinsic value of performance options recognised under SFAS 123R and exercised during the year ended September 30, 2006 was $6 million.

The following tranches of performance options vested during the year and had outstanding and unexercised balances at September 30, 2006:

Grant date	**Outstanding No.**	**Fair value ($)**	**Weighted average exercise price ($)**	**Intrinsic value ($mil)**	**Remaining contractual term (months)**
September 28, 2000	294,300	6	25	3.5	24
March 23, 2001	8,234,200	5	28	72.9	30
Weighted average values	8,528,500	5	28	76.4	30

Included in the above totals are performance options which are exercisable as at September 30, 2006 due to attached performance conditions being met in current or prior periods *(refer to note 41 for details of performance conditions attached).* These amounts are presented below:

Grant date	**Exercisable No.**	**Weighted average exercise price ($)**	**Intrinsic value ($mil)**	**Remaining contractual term (months)**
September 28, 2000	136,450	25	1.6	24
March 23, 2001	3,150,950	28	27.9	30
Weighted average values	3,287,400	28	29.5	30

The total fair value of employee shares vested during the year ended September 30, 2006 was $31 million being a total of 970,158 shares.

(v) Derivatives and hedge accounting

Under AIFRS, derivative financial instruments held or issued for trading purposes are recognised on the balance sheet at fair value, with the resultant gains and losses recognised in the profit and loss account. Derivative financial instruments that are held or issued for purposes other than trading may have hedge accounting treatment applied where the hedge accounting requirements of AASB 139 are met. From October 1, 2005, the Group has adopted AASB 139 and in doing so made various transitional adjustments to implement both cash flow and fair value hedge accounting. As a result, various previously unrecognised hedge accounting relationships were designated for AIFRS at that date. In addition, the Group records all derivatives on balance sheet at fair value under AIFRS from October 1, 2005.

If certain conditions are met the Group may designate one of three types of hedging relationships under SFAS 133: hedges of the fair value of recognised assets or liabilities (fair value hedge); hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (cash flow hedge); and hedges of the net investment in a foreign entity (net investment hedge). Hedging derivatives are accounted for in a manner consistent with the accounting treatment of the hedged items.

SFAS 133, as amended, standardises the accounting for derivative instruments and hedging activities, and requires that all derivative instruments be recognised as assets and liabilities at fair value. If certain conditions are met, hedge accounting may be applied and the derivative instruments may be specifically designated as either a fair value hedge, a cash flow hedge or a net investment hedge.

The reconciliation adjustment is primarily due to the historic differences in treatment between Australian GAAP that existed prior to the transition to AIFRS and US GAAP for derivatives that did not qualify for hedge accounting under US GAAP, and detailed differences in hedge accounting requirements between SFAS 133 and AASB 139. Historically, for the purposes of US GAAP reporting the Group only entered into fair value hedges.

The Group does not actively seek hedge accounting under SFAS 133, and hedge accounting is only applied where the requirements of AASB 139 and SFAS 133 are consistent. Consequently, certain hedge accounting adjustments made under AASB 139 must be reversed under US GAAP.

Derivative instruments that are non-designated or do not meet the relevant hedge accounting criteria for US GAAP reporting purposes are accounted for at fair value, with gains and losses recorded in net income. For the year ended September 30, 2006 the Group has recognised $181 million (2005: $210 million), before tax, within earnings attributable to the reversal of hedge accounting applied for AIFRS reporting in the current year, and with AGAAP in the prior year, that is not compliant with the requirements of SFAS 133.

(vi) Reversal of items designated at fair value through profit and loss

Under AIFRS, financial instruments may be designated at fair value through profit and loss where specified criteria is satisfied.

There are no provisions in US GAAP to make an election to designate items at fair value through profit and loss similar to that in AASB 139. The impact upon net profit and retained earnings of reversing the fair value through profit and loss designation has been reported within the reconciliation of US GAAP net income and shareholders equity. The nature of the underlying assets and liabilities designated as being carried at fair value through profit and loss under AIFRS, including a description of key terms and conditions of these assets are included within notes 16 and 27.

(vii) Consolidation

Under AIFRS, the Group is required to consolidate all entities that it controls. Control of a special purpose entity (SPE) is determined by the substance of the relationship between an entity and the SPE. Under US GAAP, the application of FIN 46(R) Consolidation of Variable Interest Entities must be considered for many of the SPEs in which the Group is involved. FIN 46(R) applies to entities that are identified as variable interest entities (VIEs). VIEs are entities in which no equity investors exist, or the equity investors:

do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties; and/or

lack the ability to make decisions about the entity, or do not absorb expected losses or residual returns of the entity.

In April 2006, the FASB issued Staff Position FIN 46(R)-6 Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R) (FSP 46(R)-6), which provides additional guidance to consider when determining whether an entity is a VIE; which interests are considered to be variable interests in the entity; and which party, if any, is the primary beneficiary of the VIE. The Group has adopted FSP 46(R)-6 early, and has used this additional guidance in determining which entities to consolidate.

A VIE is required to be consolidated where the Group is the primary beneficiary. The primary beneficiary is the entity which has a variable interest in the VIE that will absorb a majority of the entity s expected losses, receive a majority of the entity s expected residual returns, or both.

The effect of FIN 46(R) is that in some cases the Group is required to consolidate entities under US GAAP that are not consolidated under AIFRS, or to deconsolidate entities under US GAAP that are consolidated under AIFRS. The Group is involved with VIEs in various activities, including multi-seller conduit programs and asset securitisations, funding programs and structured finance.

Securitisation

The Group has relationships with VIEs that undertake securitisation activities *(refer to the liquidity, funding and capital resources section of this annual financial report for additional information on page 26).* The Group creates, manages, provides liquidity and derivative contracts to multi-seller and multi-series securitisation conduits, securitisation vehicles and asset securitisation trusts.

The principal activities of the multi-seller and multi-series securitisation conduits and securitisation vehicles involve purchasing investment securities and raising debt. The asset securitisation trusts purchase the Group s financial assets (eg. residential mortgage loan portfolios) and fund those assets with amounts provided by investors. The Group receives fees for services provided on an arm s length basis. The creditors of the VIEs generally do not have recourse to the general credit of the Group. FIN 46(R) treatment of VIEs used for securitisation activities is provided in more detail in the tables below.

Funding programs

The Group has established programs to raise funding from the issue of debt and equity instruments, such as exchangeable capital units (ExCaps), Trust Preferred Securities and National Capital Instruments. The funding programs use entities that are subject to the application of FIN 46(R).

Exchangeable Capital Units

On March 19, 1997, the Group issued exchangeable capital units (ExCaps) via entities that are subject to the application of FIN 46(R) *(refer to note 33 for additional information).*

For the purposes of AIFRS, the entities are controlled by the Group and are consolidated. As a result of an interpretation presented to the International Financial Reporting Interpretations Committee (IFRIC), from October 1, 2005 an embedded derivative requiring bifurcation was identified within the ExCaps and included within the carrying value of the ExCaps. The embedded derivative represents the right of the ExCaps holder to exchange one ExCap unit for a specified number of ordinary shares in the Group. The remaining liability component of the ExCaps is subject to discounting and accretion over the term of the securities.

Under US GAAP, the Group is not the primary beneficiary of the entity used to issue the ExCaps and therefore does not consolidate the entity under FIN 46(R). The entity has been equity accounted under US GAAP as the Group has significant influence. The ExCaps are treated as a minority interest with a value equal to the unconverted portion of the securities. Additionally, the embedded derivative recognised under AIFRS from October 1, 2005 is not required to be bifurcated for US GAAP reporting purposes.

The impact of the difference in accounting treatment under US GAAP is a reduction of $596 million to the ExCaps liability, an increase in retained earnings of $865 million, a decrease in contributed equity of $406 million, a decrease in deferred tax assets of $12 million and an increase in net profit of $125 million. There was no adjustment for the ExCaps in the 2005 year.

Trust Preferred Securities

On September 29, 2003, the Group issued Trust Preferred Securities via entities that are subject to the application of FIN 46(R) *(refer to note 37 for additional information).* For the purposes of AIFRS, the entities are controlled by the Group and are consolidated. The Trust Preferred Securities have been classified as equity under AIFRS. The Group has concluded that it is not the primary beneficiary of the entities used to issue the Trust Preferred Securities and that they should not be consolidated under US GAAP. The entities have been equity accounted under US GAAP as the Group has significant influence. An adjustment has therefore been made to remove the equity instrument from the balance sheet of the Group and to recognise the loans from the entities as a liability in the Group s balance sheet. In addition, the distributions on the Trust Preferred Securities have been reclassified from distributions to interest expense on other debt issues .

National Capital Instruments

On September 13 and 29, 2006, the Group issued National Capital Instruments via entities that are subject to the application of FIN 46(R) *(refer to notes 33 and 37 for additional information).* For the purposes of AIFRS, the entities are controlled by the Group and are consolidated. Certain of the National Capital Instruments have been classified as equity under AIFRS. The Group has concluded that it is not the primary beneficiary of the entities used to issue the capital securities and that they should not be consolidated under US GAAP. The entities have been equity accounted under US GAAP as the Group has significant influence. An adjustment has therefore been made to remove the equity instruments from the balance sheet of the Group and recognise loans from the entities as liabilities in the Group s balance sheet. Further details are provided in the tables below.

Structured finance

The Group is involved in structuring transactions to meet the finance needs of its clients. These transactions may involve entities that are subject to FIN 46(R) and may result in the Group consolidating the entity as the primary beneficiary.

The Group is the primary beneficiary of the following VIEs, classified by type of activity:

	Total assets	
Activity	**2006 $m**	**2005 $m**
Multi-seller conduit	**2,002**	3,530
Multi-series conduit	**302**	529
Asset securitisation	**5,319**	2,046

Classification	Consolidated assets that are collateral for the VIE s obligations 2006 $m	2005 $m
Held to maturity investments	**2,002**	3,530
Finance lease and hire purchase receivables	**302**	529
Mortgage loans	**5,319**	2,046

The Group has significant variable interests in the following VIEs, classified by type of activity, where the Group is not the primary beneficiary:

Activity	Total assets 2006 $m	2005 $m
Multi-seller conduit	**6,191**	
Securitisation vehicles	**1,793**	40
Funding program	**3,224**	3,270

Nature of involvement Classification	Maximum exposure to loss 2006 $m	2005 $m
Group receives fixed service fees and acts as swap counterparty		
Group receives fixed service fees and acts as swap counterparty		
Group holds ordinary equity		

(viii) Difference in profit on sale of controlled entity

On July 31, 2006, the Group sold its global Custom Fleet business. As a result of the differences between AIFRS and US GAAP in relation to the accounting for goodwill *(refer footnote (b)(ii))*, the Group s profit on sale under US GAAP was $14 million lower.

On May 8, 2006, the Group sold its MLC Asia business. As a result of the differences between AIFRS and US GAAP in relation to the accounting for life insurance *(refer footnote (a)(i)) and deferred acquisition costs (refer footnote (a)(iii)),* the Group s loss on sale under US GAAP was $129 million higher.

On February 28, 2005, the Group sold National Europe Holdings (Ireland) Limited and its controlled entities. As a result of the differences between AIFRS and US GAAP in relation to the accounting for land and buildings *(refer footnote (b)(xi))*, amortisation of goodwill *(refer footnote (b)(ii))*, and pension expense *(refer footnote (b)(iii))*, the Group s profit on sale under US GAAP was $106 million higher.

(ix) Restructuring provisions

A description of the restructuring program is included in note 5(a).

Termination benefits

Under AIFRS, a liability for termination benefits exists when the entity has a present obligation to provide benefits. The amount of the liability is calculated as the amount expected to be paid on termination. Under US GAAP, SFAS 146 Accounting for Costs Associated with Exit or Disposal Activities requires that a provision for termination benefits be recognised only when there is a detailed plan for termination and the plan is without realistic possibility of withdrawal. Where employees are required to render service until they are terminated in order to receive the termination benefits, the liability is measured at the communication date and recognised on a pro-rata basis over the future service period.

Surplus lease space

Under AIFRS, a liability for surplus lease space is recognised when it is first determined that it is probable that surplus space under a non-cancellable operating lease will be of no substantive future benefit. Under US GAAP, SFAS 146 requires that a liability be recognised when the entity ceases using the leased property.

Other costs

Under AIFRS, a provision is recognised when it is probable that a future sacrifice of economic benefits will be required and the amount of the provision can be measured reliably. Under US GAAP, for contract costs SFAS 146 recognises costs to terminate the contract before the end of its term at the time the entity terminates the contract in accordance with the contract terms. Costs that continue to be incurred under the contract for its remaining term without economic benefit to the entity are recognised when the entity ceases using the rights under the contract. For other non-contractual restructuring costs, SFAS 146 recognises such costs associated with restructuring in the period in which the liability is incurred.

The following tables summarises accruals under US GAAP associated with restructuring costs as of September 30, and changes during the years then ended:

	Termination benefits $m	**Surplus lease space $m**	**Other costs $m**	**Total $m**
Balance at September 30, 2004				
Provision	280	30	191	501
Payments	(191)	(8)	(182)	(381)
Balance at September 30, 2005	89	22	9	120
Reclassification		22		22

Provision	150	21	12	183
Payments	(123)	(39)	(24)	(186)
Provision no longer required and net foreign currency movement	4	5	3	12
Balance at September 30, 2006	120	31		151

(x) Collective provision for doubtful debts

From October 1, 2005, the Group has adopted AASB 139 as the basis for its loan loss calculation under AIFRS. The Group recognises loan impairment when objective evidence is available that a loss event has occurred and as a consequence the Group will not likely receive all amounts owed to it. Loan impairment is calculated as the difference between the carrying amount of the loan and the present value of future expected cash flows associated with the loan discounted at the loan s original effective interest rate.

The adoption of AASB 139 is consistent with the application of the requirements for the calculation of loan impairment under US GAAP and, as such, no adjustment for US GAAP reconciliation purposes is required except for the change in accounting estimate below.

Change in accounting estimate

At September 30, 2005 in the US GAAP reporting, the Group made a number of changes in the approach used to estimate the provision for doubtful debts under US GAAP. These changes were introduced to ensure consistency with the application of the requirements for the calculation of loan impairment under US GAAP as set out in SFAS 5 Accounting for Contingencies and SFAS 114 Accounting by Creditors for Impairment of a Loan and those set out in AASB 139. The Group adopted AASB 139 as the basis for its loan loss calculation under AIFRS. As a result the pre tax reconciliation adjustment to the loan loss provision was $350 million ($245 million net of tax).

Through further review and refinement of the Group s loan loss provision estimates subsequent to the finalisation of the September 30, 2005 financial report the final AGAAP to AIFRS loan loss provision adjustment was calculated as being $372 million. The $22 million difference is considered to be a change in accounting estimate and has been accounted for in accordance with SFAS 154 Accounting changes and error corrections (SFAS 154) and recognised as a current period adjustment within the reconciliation of net income. The impact of this change on earnings per share and diluted earnings per share was a reduction of 1.0 cents and 0.9 cents, respectively.

(xi) Land and Buildings

The Group revalues land and buildings annually *(refer note 1A(u))*. Any revaluation increments and decrements are included in the Group s reserves that form part of total equity. Revalued buildings are depreciated over their estimated useful lives to the entity (land is not depreciated). Under US GAAP, revaluations of land and buildings are not permitted. Accordingly, the revaluation increment on land and buildings, and the depreciation charges on revalued buildings and any associated profit or loss on sale are adjusted back to their historical cost for US GAAP purposes.

(c) Deferred tax

In accordance with the disclosure requirements of SFAS 109, set out below are details regarding deferred tax assets, as at September 30:

	2006 $m	**2005 $m**
Deferred tax assets reported using AIFRS	**1,631**	1,734
Add: Additional deferred tax assets		
Carry forward of Australian, UK and US capital losses	**1,933**	1,873
Carry forward of Australian and US operating losses	**54**	56
Deductible temporary differences not recognised for AIFRS	**39**	37
Deferred tax assets according to US GAAP	**3,657**	3,700
Less: Valuation allowance	**(2,026)**	(1,966)
Deferred tax asset	**29**	90
Net deferred tax assets according to US GAAP	**1,660**	1,824

A valuation allowance is required to reduce deferred tax assets if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or all of the deferred tax assets will not be realised. The valuation allowance should be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realised. Based on the available evidence, the Group considers that the realisation of the additional deferred tax assets reported above has a likelihood of less than 50% as at September 30, 2006. Further information on losses, including their expiry, are included in note 24.

Movements in the valuation allowance are as follows:

	2006 $m	**2005 $m**
Valuation allowance movements comprising:	**60**	120
Additional capital losses	**79**	89
Capital losses taken to profit and loss	**(19)**	(2)
Additional revenue tax losses	**(2)**	33
Revenue tax losses taken to profit and loss		(26)
Foreign tax credits and previously unbooked temporary differences	**2**	26

(d) US GAAP earnings per share

	2006		2005	
	Basic	**Diluted**	**Basic**	**Diluted**
Earnings ($m)				
Net income according to US GAAP	**4,232**	**4,232**	3,891	3,891
Distributions on other equity instruments	**(139)**	**(139)**	(136)	(136)
Potential dilutive adjustments:				
Interest expense on exchangeable capital units		**61**		106
Adjusted earnings	**4,093**	**4,154**	3,755	3,861
Weighted average ordinary shares (No. 000)				
Weighted average ordinary shares	**1,599,919**	**1,599,919**	1,559,118	1,559,118
Treasury shares	**(24,315)**	**(24,315)**	(21,033)	(21,033)
Potential dilutive ordinary shares				
Performance options and performance rights		**3,673**		2,047
Partly paid ordinary shares		**288**		321
Staff share allocation and ownership plans		**1,113**		1,484
Exchangeable capital units		**38,429**		64,911
Total weighted average ordinary shares	**1,575,604**	**1,619,107**	1,538,085	1,606,848
Earnings per share (cents)	**259.8**	**256.6**	244.1	240.3

The 2005 earnings per share calculations have been updated for the effects of treasury shares.

(e) Changes in accounting principles

In conjunction with the transition to AIFRS the Group has continued to review its US GAAP reporting process with the view of bringing US GAAP accounting treatments into line with AIFRS, wherever possible. This has resulted in changes in accounting principles under US GAAP being recognised.

To address these accounting principle changes, in accordance with SFAS 154 (which the Group has adopted early), the prior-period financial statements have been restated and the cumulative effects have been reflected as of September 30, 2005. Detailed information in respect of these adjustments is provided below:

	2005 $m
Net income according to US GAAP as previously reported	3,908
Changes in accounting principles:	
Adoption of full recognition basis for defined benefit plans	(27)
Adjustment for deferred acquisition costs	(11)
Total tax impact of adjustments	21
Total changes in accounting principles	(17)
Net income according to US GAAP restated	3,891

	2005 $m
Shareholders equity according to US GAAP as previously reported	24,486
Changes in accounting principles:	
Adoption of full recognition basis for defined benefit plans	(1,514)
Deferred acquisition costs	(111)
Total tax impact of adjustments	524
Total changes in accounting principles	(1,101)
Shareholders equity according to US GAAP restated	23,385

The effects of the restatements on earnings per share according to US GAAP are as follows:

	2005 cents
Basic earnings per share as previously reported (cents)	237.6
Basic earnings per share restated (cents)	244.1
Diluted earnings per share as previously reported (cents)	234.4
Diluted earnings per share restated (cents)	240.3

Changes at October 1, 2004

Adoption of full recognition basis for defined benefit plans

The transition to AIFRS has had impacts on certain aspects of the treatment of pensions. The defined benefits prepaid pension asset was recognised previously as a result of applying FAS 87 principles within AGAAP. This related to the corridor approach whereby aggregated unrecorded gains and losses exceeding 10% of the greater of the aggregated projected benefit obligation or the market value of the plan assets were amortised over the average expected service period of active employees expected to receive benefits under the plan.

In addition, under AIFRS the Group has elected to recognise immediately the full actuarial gains and losses directly within retained earnings. Whilst there is no material difference in the measurement of any actuarial movements, in order to ensure consistency between the accounting principles the Group has adopted under AIFRS and US GAAP, from October 1, 2004 the Group has changed the US GAAP accounting principle to immediately recognise actuarial gains and losses in the income statement, rather than defer them. As a consequence, for the purposes of US GAAP the Group must reclassify the actuarial gains and losses from retained earnings into the income statement. Finally, the classification of pension funds between defined benefit and defined contribution has been conformed.

These changes have resulted in an increase to net pension liability on October 1, 2004 of $1,838 million, an increase in deferred tax assets of $574 million, with an associated decrease in retained earnings of $1,264 million. For 2005 net pension liabilities were decreased by $321 million, foreign currency translation reserve increased by $110 million, deferred tax assets decreased by $57 million, retained earnings increased by $166 million, pension expense increased by $27 million, and tax expense decreased by $15 million. The impact of this change on earnings per share and diluted earnings per share was a reduction of 0.8 cents and 0.7 cents, respectively.

Deferred acquisition costs

Previously, the Group capitalised acquisition costs of new business in non-life insurance entities to ensure consistency of reporting within the life insurance group as allowed under the previous AGAAP. Upon transition to AIFRS, the deferral of acquisition costs for investment contracts is no longer permitted and these costs were written off.

In order to ensure consistency with the accounting principles adopted under AIFRS, from October 1, 2004, the Group has changed the US GAAP accounting principle to immediately recognise as an expense acquisition costs on non-life business under US GAAP, rather than capitalising and amortising them.

In accordance with SFAS 154, comparative amounts have been restated. The cumulative effect of the change on the opening balance of deferred acquisition costs was a decrease of $100 million and retained earnings was decreased by $100 million. For 2005, deferred acquisition costs were decreased by $11 million, deferred tax liability decreased by $6 million, general expenses increased by $11 million and tax expense decreased by $6 million. The impact of this change on earnings per share and diluted earnings per share was a reduction of 0.3 cents and 0.3 cents, respectively.

Changes at October 1, 2005

Changes in accounting principle at October 1, 2005:	**Group $m**
Restated shareholders equity according to US GAAP at September 30, 2005	23,385
Impact of changes in accounting principles at October 1, 2005:	
less: Adjustment for fees and commissions	(411)
less: Bid / offer adjustment	(16)
Total tax impact of adjustments	129
Total changes in accounting principles	(298)
Restated shareholders equity according to US GAAP at October 1, 2005	23,087

Fees and commissions

Previously, the Group recognised certain fees directly to income. With the move to AIFRS from October 1, 2005, data collection processes have been established that enable the Group to recognise all yield-related fees on an effective yield basis. This has led to $411 million of fees previously recorded within income being reversed from retained earnings, recognised within loans and advances and amortised over the remaining life of the underlying facilities. The impact upon the income statement for the financial year ended September 30, 2006 is an increase of $19 million.

From October 1, 2005 the Group has changed the US GAAP accounting principle to recognise all yield-related fees on an effective yield basis. It is impractical to apply this change in principle to the prior period as this adjustment is based upon circumstances and information existing at October 1, 2005 that was not available within the prior year. This change in accounting principle is preferable as it ensures all yield related fees are treated on a consistent basis between AIFRS and US GAAP. This change has resulted in a decrease to loans and advances on October 1, 2005 of $411 million, with an associated decrease in retained earnings.

Bid/offer adjustment

Under AIFRS from October 1, 2005 financial assets are priced at the bid-price and financial liabilities at the offer-price obtained from an active financial market, where these are not subject to an arrangement of offsetting market risks. Previously, all financial assets and liabilities were valued through the application of the mid-rate for both AGAAP and US GAAP reporting purposes.

From October 1, 2005 the Group has also changed its US GAAP accounting principle to value financial assets and liabilities on a bid or offer-price basis. It is impractical to apply this change in principle to the prior period as this adjustment is based upon circumstances and information existing at October 1, 2005 that objectively were not available within the prior year. This change in accounting principle is preferable as this change ensures consistency with the accounting principle under AIFRS.

These changes have resulted in a increase to other financial liabilities at fair value on October 1, 2005 of $16 million, with an associated decrease in retained earnings.

(f) Recent developments in US GAAP

The SEC/FASB have issued a number of new pronouncements which are not effective for the Group s 2006 financial statements. These are set out below. The Group is currently evaluating the impact of each of these pronouncements.

In September 2006, the SEC issued Staff Accounting Bulleting No. 108 Guidance for Quantifying Financial Statement Misstatements (SAB 108) to address diversity in practice regarding the quantification of financial statement misstatements under the two methods most commonly used by preparers and auditors - the rollover and iron curtain methods. The SEC staff believes that reliance on only one of these methods, to the exclusion of the other, does not appropriately quantify all misstatements that could be material to financial statement users. Accordingly, it will expect registrants to quantify and analyse misstatements using both methods (ie, a dual approach). SAB 108 is effective for the Group s 2008 fiscal year.

In September 2006, the FASB issued Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). SFAS 158 requires an employer to recognise the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position, and to recognise changes in that funded status in the year in which the changes occur through comprehensive income. It also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS 158 is effective for the Group s 2007 fiscal year.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, and accordingly does not require any new fair value measurements. SFAS 157 is effective for the Group s 2008 fiscal year.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognised in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes . FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition requirements. FIN 48 is effective for the Group s 2008 fiscal year.

In March 2006, the FASB issued Statement No. 156, Accounting for Servicing of Financial Assets (SFAS 156), which amends SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities . SFAS 156 requires recognition of a servicing asset or liability at fair value each time an obligation is undertaken to service a financial asset by entering into a servicing contract. SFAS 156 also provides guidance on subsequent measurement methods for each class of servicing assets and liabilities and specifies financial statement presentation and disclosure requirements. SFAS 156 is effective for the Group s 2007 fiscal year.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS No. 155), which amends SFAS No. 133 and SFAS No. 140. SFAS No. 155 amends SFAS No. 133 to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principle cash flows. SFAS No. 155 also amends SFAS No. 140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative instrument. SFAS No. 155 is effective for the Group s 2007 fiscal year.

In November 2005, the FASB issued FASB Staff Position SFAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards (FSP 123(R)-3). FSP 123(R)-3 provides an elective alternative method that establishes a computational component to arrive at the accumulated paid-in capital beginning balance of the accumulated paid-in capital pool related to employee compensation and a simplified method to determine the subsequent impact on pool of employee awards that are fully vested and outstanding upon the adoption of SFAS 123(R).

In November 2005, the FASB issued FASB Staff Position Nos. SFAS 115-1 and SFAS 124-1 (FSP 115-1), The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of other than temporary impairments. FSP 115-1 is effective for the Group s 2008 fiscal year.

58 Derivative financial instruments - 2005 financial year

This note contains disclosures in respect of the 2005 year that are determined prior to the adoption of AASB 132 and AASB 139. Refer to note 11 for 2006 disclosures.

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 to satisfy 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, within a prescribed limit framework, to manage its exposure to market and credit risks relating to trading activities. It satisfies customer needs and maintains access to market liquidity by quoting bid and offer prices on those instruments and trading with other market makers. 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 profit and loss account. It is the Group s policy from a trading risk viewpoint to maintain a substantially matched position in assets and liabilities in foreign currencies. Net exposure to exchange risk in this respect is not material.

Derivative financial instruments held or issued for purposes other than trading

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.

The Group monitors its non-trading interest rate risk by simulating future net interest income resulting from applying a range of possible future interest rate scenarios to its projected balance sheets.

The Group also holds or issues derivative financial instruments for the purpose of hedging structured foreign exchange risk. Foreign exchange derivatives are used to hedge foreign currency borrowings and anticipated cash flows such as those relating to dividends emanating from foreign controlled entities.

In addition, the Group holds or issues derivative financial instruments for the purpose of hedging credit risk. Credit derivatives are utilised to manage credit risk in the loans and advances portfolio.

The following table shows the fair value of all derivative instruments held or issued by the Group as at September 30, 2005. The fair value of derivative financial instruments was obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate. It should be noted that fair value at a particular point in time gives no indication of future gain or loss, or what the dimensions of that gain or loss are likely to be.

Fair value of derivative financial instruments held or issued by the Group

	Other than trading fair value (1) 2005 $m	Trading fair value (1) 2005 $m
Foreign exchange rate-related contracts		
Spot and forward contracts to purchase foreign exchange		
In a favourable position	136	3,063
In an unfavourable position	(377)	(3,348)
Cross currency swaps		
In a favourable position	383	3,891
In an unfavourable position	(3,042)	(2,256)
Options		
Purchased	1	416
Written	n/a	(432)
	(2,899)	1,334

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	Other than trading fair value (1) 2005 $m	Trading fair value (1) 2005 $m
Interest rate-related contracts		
Forward rate agreements		
In a favourable position	2	12
In an unfavourable position	(2)	(9)
Swaps		
In a favourable position	410	6,073
In an unfavourable position	(242)	(6,145)
Futures		
In a favourable position	5	33
In an unfavourable position	(9)	(29)
Options/swaptions		
Purchased	35	195
Written	n/a	(179)
	199	(49)
Credit-related contracts		
Credit derivatives		
In a favourable position	6	59
In an unfavourable position	(3)	(73)
	3	(14)
Other contracts		
In a favourable position	15	217
In an unfavourable position	(5)	(142)
	10	75
Total fair value of derivative financial instruments held or issued - in a favourable position	993	13,959
Total fair value of derivative financial instruments held or issued - in an unfavourable position	(3,680)	(12,613)

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(1) The positive fair value represents the credit risk to the Group if all the Group s counterparties were to default.

The following table shows the notional principle and fair value of all derivative instruments held or issued by the Group as at September 30, 2005. It should be noted that fair value at a particular point in time gives no indication of future profit or loss, or what the dimensions of that profit or loss are likely to be.

Notional principal and fair value of all derivative financial instruments	Notional principal 2005 $m	Fair value 2005 $m
Foreign exchange rate-related contracts		
Spot and forward contracts to purchase foreign exchange *(1)*		
Trading	307,046	(285)
Other than trading	31,562	(241)
	338,608	(526)
Cross currency swaps *(1)*		
Trading	127,869	1,635
Other than trading	32,147	(2,659)
	160,016	(1,024)
Futures trading	58	
Options		
Trading	38,309	(16)
Other than trading	105	1
	38,414	(15)

Total foreign exchange rate-related contracts	537,096	(1,565)

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	Notional principal 2005 $m	Fair value 2005 $m
Interest rate-related contracts		
Forward rate agreements		
Trading	107,815	3
Other than trading	9,458	
	117,273	3
Swaps		
Trading	782,972	(72)
Other than trading	47,457	168
	830,429	96
Futures		
Trading	319,197	4
Other than trading	1,306	(4)
	320,503	
Options/swaptions		
Trading	106,777	16
Other than trading	2,170	35
	108,947	51
Total interest rate-related contracts	1,377,152	150
Credit-related contracts		
Credit derivatives		
Trading	16,985	(14)
Other than trading	5,571	3
Total credit-related contracts	22,556	(11)
Other contracts		
Trading	2,919	75
Other than trading	110	10
Total other contracts	3,029	85
Total derivative financial instruments	1,939,833	(1,341)
Deduct: Non-consolidated controlled entities *(2)*	3,207	28
Total derivative financial instruments reported for capital adequacy	1,936,626	(1,369)

(1) In accordance with industry practice, notional principal amounts disclosed for spot and forward foreign exchange contracts represent the buy leg only and for cross currency swaps represent the receivable leg only.

(2) Under APRA guidelines, life insurance and funds management activities are excluded from the calculation of risk-weighted assets and the related controlled entities are deconsolidated for the purposes of calculating capital adequacy. Amounts deducted are included within other than trading.

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59 Events subsequent to balance date

The Group announced in November 2006 that based upon its strong capital position at year end and commitment to active capital management, that it intends to commence an on-market share buyback program of $500 million (or approximately 13 million shares) in the first half of the 2007 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 96 to 260 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, 2006, and of the performance of the Company and the Group for the year ended September 30, 2006;

(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 45 and 46 to the financial statements for further details).*

Dated this 30th day of November 2006 and signed in accordance with a resolution of the directors:

/s/ Michael A Chaney Michael A Chaney Chairman	/s/ John M Stewart John M Stewart Group Chief Executive Officer

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Independent audit report to the members of National Australia Bank Limited

Scope

The financial report, remuneration disclosures and directors responsibility

The financial report comprises the income statement, balance sheet, recognised income and expense statement, cash flow statement, accompanying notes to the financial statements, and the directors declaration for National Australia Bank Limited (the Company) and the Group, for the year ended September 30, 2006. The Group comprises both the Company and its controlled entities.

The Company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Australian Accounting Standard AASB 124 Related Party Disclosures (remuneration disclosures), under the heading Remuneration report on pages 78 to 93 of the Report of the directors , a permitted by Corporations Regulations 2M.6.04.

The directors of the Company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Company and the Group, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act* 2001 (Cth). This includes responsibility for the oversight of the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the Report of the directors.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Australian Accounting Standard AASB 124 Related Party Disclosures . The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act* 2001 (Cth), including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company s and the Group s financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124 Related Party Disclosures .

We formed our audit opinion on the basis of these procedures, which included:

examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and

assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management s internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the Company.

Independence

We are independent of the Company and the Group and have met the independence requirements of Australian professional ethical pronouncements and 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.

Audit opinion

In our opinion:

1 the financial report of National Australia Bank Limited is in accordance with:

a) 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, 2006 and of their performance for the year ended on that date; and

ii) complying with Accounting Standards in Australia and the *Corporations Regulations* 2001 (Cth); and

b) other mandatory financial reporting requirements in Australia.

2 the remuneration disclosures that are contained on pages 78 to 93 of the Report of the directors comply with Australian Accounting Standard AASB 124 Related Party Disclosures .

/s/ Ernst & Young
Ernst & Young

/s/ SJ Aldersley
SJ Aldersley
Partner

Melbourne, Australia
November 30, 2006

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Report of independent registered public accounting firm

The board of directors and shareholders of National Australia Bank Limited

We have audited the accompanying financial report of National Australia Bank Limited and its controlled entities (the Group) as of and for the years ended September 30, 2006 and September 30, 2005. The financial report comprises the income statements, balance sheets, recognised income and expense statements, cash flow statements and accompanying notes to the financial statements. The financial report is the responsibility of the Group s management. Our responsibility is to express an opinion on the financial report based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and Australian Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial report presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial report referred to above presents fairly, in all material respects, the financial position of the Group at September 30, 2006 and 2005, and the results of its operations and its cash flows for each of the two years in the period ended September 30, 2006, in conformity with Australian Accounting Standards.

Accounting Standards in Australia vary in certain significant respects from US generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in note 57 of the financial report.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Group s internal control over financial reporting as of September 30, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission and our report dated November 30, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young
Ernst & Young
Melbourne, Australia
November 30, 2006

The board of directors and shareholders of National Australia Bank Limited

We have audited management s assessment, included in the accompanying management report on internal control over financial reporting, that National Australia Bank Limited and its controlled entities (the Group) maintained effective internal control over financial reporting as of September 30, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (the COSO criteria). The Group s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Group s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Group maintained effective internal control over financial reporting as of September 30, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the financial report of National Australia Bank Limited and its controlled entities as of September 30, 2006 and September 30, 2005. The financial report comprises the income statements, balance sheets, recognised income and expense statements, cash flow statements and accompanying notes to the financial statements for the Group. Our report dated November 30, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young

Ernst & Young
Melbourne, Australia
November 30, 2006

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Shareholder information

The Company, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Major shareholders

The Company is not directly or indirectly controlled by another entity or person or any foreign government.

There are no arrangements known to the Company, the operation of which may after the date of this annual financial report result in a change in control of the Company.

Shareholdings of individual directors of the Company are set out in the report of the directors. Aggregate shareholdings of directors of the Company and senior executive officers of the Group, listed below, as at the date of this report are as follows:

Title of class of shares	Identity of person or group	No. of shares held	% of class of shares
Ordinary shares, fully paid	Directors and senior executive officers (18 persons)	681,335	0.04
Total number of ordinary shares held *(1)*		681,335	0.04

(1) 550,867 fully paid ordinary shares held by the executive directors and senior executive officers are held under employee share plans of the Company.

Directors

The directors of the Company at September 30, 2006 were:

Position	Name	Age	Position held since	Directorship held since
Chairman	Michael A Chaney	56	2005	2004
Group Chief Executive Officer	John M Stewart	57	2004	2003
Other directors	Patricia Cross	47		2005
	Peter JB Duncan	65		2001
	Ahmed Fahour	40		2004
	Daniel T Gilbert	55		2004

	T Kerry McDonald	65	2005
	Paul J Rizzo	61	2004
	Jillian S Segal	50	2004
	John G Thorn	58	2003
	Geoffrey A Tomlinson	59	2000
	Michael J Ullmer	55	2004
	G Malcolm Williamson	67	2004

Senior executive officers

The senior executives of the Group as at the date of this annual financial report are:

John M Stewart

BA, ACII, FCIB

Age 57

Group Chief Executive Officer of National Australia Bank Limited position held since calendar 2004 and Executive Director of National Australia Bank Limited since calendar 2003.

Joined the Group in calendar 2003 as Managing Director and Chief Executive Officer, National Australia Group Europe Limited. Prior to joining the Group, he held senior positions with Woolwich PLC including Group Chief Executive and Deputy Group Chief Executive of Barclays PLC following its acquisition of Woolwich PLC.

Cameron A Clyne

BA

Age 38

Executive General Manager, Group Development position held since calendar 2005.

Joined the Group in calendar 2004 as Executive General Manager, Customer Solutions. Prior to joining the Group, he was a partner of IBM Business Consulting Services and of PricewaterhouseCoopers. The majority of his consulting experience has been in the financial services industry.

Ahmed Fahour

BEc (Hons), MBA

Age 40

Executive Director and Chief Executive Officer, Australia position held since calendar 2004.

Joined the Group in calendar 2004. Prior to joining the Group, he held the position of Chief Executive Officer of Citigroup, Australia and New Zealand, in 2004, having held senior management positions in Citigroup from 2000. From 1987 to 1999, he was employed by Boston Consulting Group.

Michael J Hamar

MA (Hons), MBA, CPA

Age 60

Group Chief Risk Officer position held since calendar 2004.

Joined the Group in calendar 2004. Prior to joining the Group, he held senior financial positions with Commonwealth Bank of Australia, JP Morgan Chase & Company and Continental Illinois National Bank, Chicago.

John E Hooper

BSc Econ (Hons), MA

Age 45

Chief Executive Officer, nabCapital position held since calendar 2004.

Joined the Group in calendar 1996. Prior to his current position, he held the positions of Executive General Manager, Corporate & Institutional Banking (Acting) and General Manager, Specialised Finance, and held senior positions in corporate finance with the Group in the United Kingdom. Prior to joining the Group, he held senior positions with Kleinwort Benson Limited in the United Kingdom and North America and Henry Ansbacher and Company Limited in the United Kingdom.

Lynne M Peacock

BA (Hons)

Age 52

Chief Executive Officer, United Kingdom   position held since calendar 2004.

Joined the Group in calendar 2003 as an executive director of National Australia Group Europe Limited and was appointed Executive General Manager, People & Culture of the Group in April 2004. Prior to joining the Group, Ms Peacock was Chief Executive of Woolwich PLC, part of the Barclays Group. She held several senior positions at Woolwich PLC including Group Operations Director, General Manager, Retail Operations, General Manager, Customer Services and Head of Marketing.

Peter L Thodey

Age 56

Managing Director and Chief Executive Officer, Bank of New Zealand   position held since calendar 2000.

Joined the Group in calendar 1980. Prior to his current position, he held the positions of Chief Executive Officer, New Zealand, Executive General Manager, Financial Services New Zealand, General Manager, Business Financial Services at Bank of New Zealand and various other senior positions in New Zealand. Prior to joining the Group, he held management positions with General Finance Ltd.

Michael J Ullmer

BSc (Maths) (Hons), FCA, SF Fin

Age 55

Finance Director and Group Chief Financial Officer   position held since calender 2004.

Joined the Group in calendar 2004. Prior to joining the Group, he held senior management positions with Commonwealth Bank of Australia, including Group Executive, Institutional and Business Services, and Group Executive, Financial and Risk Management. He was a partner of Coopers & Lybrand from 1992 to 1997 and of KPMG from 1982 to 1992.

Group General Counsel

David M Krasnostein

BJuris (Hons), LLB, LLM

Age 52

Group General Counsel position held since calendar 1996.

Joined the Group in calendar 1996. Prior to joining the Group, he held the position of General Counsel, Telstra Corporation Limited and partner/attorney positions with legal firms in the US.

Company Secretary

Michaela J Healey

LLB, FCIS

Age 39

Group Company Secretary position held since calendar 2006.

Joined the Company in calendar 2006. Prior to joining the Group, she held senior positions at Orica Limited including Company Secretary, Corporate Affairs Manager and Business Manager of Orica s retail services business, and was Company Secretary of North Limited.

The directors of the Company are classified as either executive or non-executive, with the former being those directors engaged in the full-time employment of the Company. Messrs Stewart, Fahour and Ullmer are executive directors.

The aggregate remuneration paid by the Group during the year ended September 30, 2006 to the directors who held office during that period and the senior executive officers listed above as a group, was $34.6 million in respect of 19 positions (2005: $36.1 million paid to directors and senior executive officers in respect of 24 positions).

During the year ended September 30, 2006, 9,266,792 performance options and 2,263,669 performance rights were issued to 1,995 senior employees. Of these, 405,022 performance options and 101,068 performance rights lapsed during the year. These performance options included a total of 1,383,196 performance options issued to the executive directors and senior executive officers listed above. There were 360,800 performance rights issued to the executive directors and senior executive officers listed above.

In 2005, 7,486,754 performance options and 1,856,835 performance rights were issued to 1,473 senior employees, of these 460,601 performance options and 115,113 performance rights lapsed during the 2005 year. The issue included 1,548,500 performance options and 372,125 performance rights to the executive directors and to the senior executive officers.

Trading market

Ordinary shares, performance options, performance rights and exchangeable capital units

The fully paid ordinary shares of the Company are quoted for trading on the stock market of ASX, which in part, is a self-regulatory organisation governing the open market quotation, purchase and sale of the fully paid ordinary shares in Australia. ASX is the principal market for the Company s fully paid ordinary shares, and operates in the following cities in Australia: Melbourne, Sydney, Brisbane, Perth, Adelaide and Hobart.

The fully paid ordinary shares are also quoted on stock markets of London Stock Exchange PLC; Stock Exchange, New Zealand and (in the case of American depository shares (ADSs)) New York Stock Exchange, Inc.

A summary of the rights attaching to the ordinary shares appears under the heading the Company s constitution below.

As at November 10, 2006 the Company had on issue 374,419 unquoted partly paid ordinary shares held by 355 holders, and 47,109,239 unquoted performance options outstanding under the National Australia Bank Executive Share Option Plan No. 2 held by 4,247 option holders.

As at November 10, 2006 there were 6,674,647 performance rights outstanding granted under the National Australia Bank Performance Rights Plan held by 2,514 rights holders. Where a person holds partly paid ordinary shares or performance options or performance rights issued at different times, they are categorised as a separate holder for each share, performance option or performance right holding.

As at November 10, 2006 there were 10,379,754 exchangeable capital units issued by the Group held by a single holder of record, being The Depositary Trust Company, which holds them on behalf of participants. These units may be exchanged for fully paid ordinary shares in the Company or, at the Company s option, cash.

American depositary shares representing ordinary shares

The Company s fully paid ordinary shares are traded in the US in the form of ADSs. ADSs are evidenced by American depositary receipts issued by The Bank of New York Company, Inc., as depositary, pursuant to an amended and restated deposit agreement dated as of November 14, 1997, or Morgan Guaranty Trust Company of New York, its predecessor depositary, pursuant to a deposit agreement dated January 16, 1987, as amended as of June 24, 1988. Each ADS represents five fully paid ordinary shares. The ADSs are quoted on the stock market of New York Stock Exchange, Inc. (NYSE), which is the principal market in the US for the trading of the ADSs. The ADSs trade on the NYSE under the symbol NAB . As at November 10, 2006, 6,404,215 ADSs representing 32,021,075 fully paid ordinary shares, or approximately 1.97% of the fully paid ordinary shares outstanding on such date, were held by 207 holders with registered addresses in the US.

National Income Securities (NIS)

On June 29, 1999 the Group raised $1,945 million through the issue of 20,000,000 NIS at $100 each. The NIS were quoted on July 8, 1999 for trading on ASX. ASX is the principal market for the NIS. A summary of the rights attaching to the preference shares forming part of the NIS appears under the heading the Company s constitution below.

Trust Preferred Securities

On September 29, 2003 the Group raised GBP400 million through the issue by National Capital Trust I (a controlled entity formed in Delaware) of 400,000 Trust Preferred Securities at GBP1,000 each. The Trust Preferred Securities are traded on the Luxembourg Stock Exchange. A summary of the rights attaching to the Trust Preferred Securities, including the redeemable preference shares which may be issued in certain limited circumstances, appears under the heading the Company s constitution below.

Trust Preferred Securities II

On March 23, 2005, the Group raised US$800 million through the issue by National Capital Trust II (a controlled entity formed in Delaware) of 800,000 Trust Preferred Securities at US$1,000 each. The Trust Preferred Securities are traded on the Channel Islands Stock Exchange. A summary of the rights attaching to the Trust Preferred Securities, including the redeemable preference shares which may be issued in certain limited circumstances, appears under the heading the Company s constitution below.

National Capital Instruments

Australian Issue

On September 18, 2006, the Group raised $400 million through the issue by National Australia Trustees Limited in its capacity as trustee of the National Capital Trust III (a special purpose trust established in and subject to the laws of Victoria, Australia) of 8,000 National Capital Instruments (Australian NCIs) at $50,000 each. The Australian NCIs are lodged with and traded through the Austraclear System. A summary of the rights attaching to the Australian NCIs, including the redeemable preference shares which may be issued in certain limited circumstances, appears under the heading the Company s constitution below.

Euro Issue

On September 29, 2006, the Group raised a further EUR400 million through the issue by National Capital Instruments [Euro] LLC 2 (a controlled entity formed in Delaware) of 8,000 National Capital Instruments (Euro NCIs) at EUR50,000 each. The Euro NCIs are traded on the Luxembourg Stock Exchange. A summary of the rights attaching to the European NCIs, including the redeemable preference shares which may be issued in certain limited circumstances, appears under the heading the Company s constitution below.

Price histories

The following table sets forth, for the months, calendar quarters and financial years indicated, the high and low sale prices of the fully paid ordinary shares as reported by ASX; the high and low sale prices per ADS as reported on the NYSE composite tape; and the high and low sale prices of the NIS as reported by ASX:

	Ordinary shares		ADSs		NIS	
	High $	Low $	High US$	Low US$	High $	Low $
By month						
November 2006 *(1)*	40.53	37.71	156.85	146.25	101.30	100.70
October 2006	38.87	37.05	147.69	136.80	102.29	100.19
September 2006	37.19	35.75	140.85	134.75	102.09	101.50
August 2006	36.88	35.38	141.10	135.09	102.15	100.50
July 2006	36.27	33.72	138.00	126.00	101.54	99.80
June 2006	35.77	33.07	135.92	122.90	101.20	100.80
By quarter						
December quarter 2006 *(1)*	40.43	37.71	156.85	136.80	101.30	100.70
September quarter 2006	37.19	33.72	141.10	126.00	102.15	99.80
June quarter 2006	38.10	33.07	144.61	122.99	101.75	100.02
March quarter 2006	37.85	32.20	136.80	118.87	101.79	100.00
December quarter 2005	33.75	31.37	126.85	116.40	100.90	100.00
September quarter 2005	33.67	30.06	127.70	111.20	101.75	99.70
June quarter 2005	32.04	28.33	121.35	108.80	101.45	99.60
March quarter 2005	30.49	28.23	119.30	109.20	101.45	99.71
December quarter 2004	28.98	26.89	112.42	97.75	103.95	100.10
By financial year						
2006	38.10	31.37	156.85	118.87	100.90	99.80
2005	33.75	28.23	127.70	108.80	102.00	99.60
2004	32.12	26.04	122.90	92.59	102.65	99.00
2003	34.42	28.36	116.00	85.77	99.99	93.50
2002	36.78	30.87	105.79	80.67	96.00	91.10

(1) *Represents the period to November 10, 2006.*

On November 10, 2006, the closing price on ASX was $38.61 per fully paid ordinary share, with 1,627,996,847 fully paid ordinary shares (excluding partly paid ordinary shares) outstanding, held by 370,502 holders. On November 10, 2006, the closing price per ADS as reported on the NYSE composite tape was US$152.25, with 6,404,215 ADSs outstanding, held by 207 holders. On November 10, 2006, the closing price on ASX was $101.10 per NIS, with 20,000,000 NIS outstanding held by 39,051 holders.

The Company s constitution

The following is a summary of some of the key aspects of the constitution of the Company:

Objects and purposes

The Company was incorporated on June 23, 1893, in the state of Victoria, Australia. The Company is registered with ASIC and its Australian Company Number is 004 044 937. The constitution does not specify the objects and purposes of the Company. Under the *Corporations Act* 2001 (Cth), the Company has the legal capacity and powers of an individual.

Directors

The constitution regulates various matters concerning the directors of the Company:

(a) Matters in which the director has a material personal interest

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 four circumstances permitted by the constitution and the *Corporations Act* 2001 (Cth). Those circumstances are outlined in detail in the corporate governance report on page 60, under the heading conflicts of interest .

(b) Compensation of non-executive directors

The aggregate remuneration of non-executive directors is determined by the Company in general meeting. That aggregate remuneration is to be divided among the non-executive directors as they agree on or, in the absence of agreement, equally. The division of aggregate remuneration among non-executive directors does not require an independent quorum.

In addition, each non-executive director is entitled to be reimbursed for reasonable travelling, accommodation and other expenses incurred while travelling to or from meetings or when otherwise engaged on the business of the Company.

(c) Borrowing powers exercisable by directors

Under the constitution, the business of the Company is to be managed by the directors, who may exercise all such powers of the Company as are not required by the *Corporations Act* 2001 (Cth) or the constitution to be exercised by the Company in general meeting. The directors are specifically authorised to exercise all the powers of the Company to borrow or raise money, to charge any property or business of the Company or any or all of its uncalled capital and to issue debentures or give any other security for a debt, liability or obligation of the Company or of any other person. These powers can only be altered by an amendment to the constitution, which would need to be approved by the passage of a special resolution of the Company s members at a general meeting.

(d) Retirement of directors under an age limit requirement

No person over the age of 70 years may be appointed as a director of the Company. A director who attains the age of 70 is deemed to have retired from the Company on that day, unless the remaining directors have previously resolved that the director s retirement will occur at the conclusion of the next annual general meeting of the Company.

(e) Share qualification

Within two months after a director s appointment, the director must hold at least 2,000 fully paid ordinary shares in the Company in the director s own right.

(f) Re-election of directors

Each year at least one-third of the non-executive directors retire from office at the annual general meeting. The retiring non-executive directors may be eligible for re-election.

Share rights ordinary shares

Holders of ordinary shares are entitled to receive such dividends on those shares as may be declared by the directors from time to time. Dividends that are paid but not claimed may be invested by the directors for the benefit of the Company until required to be dealt with in accordance with any law relating to unclaimed monies. The holder of a partly paid ordinary share is, under the terms of issue of such shares, entitled to rank for any ordinary dividend in proportion to the amount paid up thereon on subscription (or in certain circumstances, the amount paid up thereon from time to time after subscription) on account of the nominal value of the share.

Dividends are only payable out of profits of the Company, and a declaration by the directors as to the amount of profits available for dividend is final and binding on all members. Before paying any dividend, directors may set aside, out of the profits of the Company, such reserves as they think proper to be applied at their discretion for any proper purpose, and may carry forward so much of the profits remaining as they consider ought not to be distributed as dividends, without transferring those profits to a reserve.

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.

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 surplus proceeds on liquidation.

Ordinary shareholders have no right to redeem their shares.

Holders of fully paid ordinary shares have no liability for further capital calls by the Company. The holders of partly paid ordinary shares are liable to pay unpaid amounts on the shares upon a call being made in accordance with the terms of issue of the shares and the constitution.

There is no provision of the constitution that discriminates against any existing or prospective holder of ordinary shares as a result of such shareholder owning a substantial number of shares.

Share rights American depositary shares representing ordinary shares (ADSs)

Each ADS is comprised of five fully paid ordinary shares in the Company which have been deposited with a depositary or custodian. The rights attaching to each fully paid ordinary share comprised in an ADS are the same as the rights attaching to fully paid ordinary shares as described above. These rights are vested in the depositary or custodian as the holder of the fully paid ordinary shares, although holders of American depositary receipts (ADRs), which evidence ADSs, have certain rights against the depositary or custodian under the terms governing the issue of the ADRs.

Share rights National Income Securities (NIS)

On June 29, 1999, the Company issued 20,000,000 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. If the amount unpaid on a NIS preference share becomes due, the holder can, and must, transfer to the Company the note stapled to that NIS preference share. The transfer of the note to the Company will satisfy the holder s obligation to pay up the amount on the NIS preference share. The holder will then hold a fully paid NIS preference share.

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 commencing on August 15, 1999. A minimum interest rate of at least 6% per annum was payable until May 15, 2000. Holders of NIS preference shares are not entitled to dividends until the NIS preference shares become fully paid. If the NIS preference shares become fully paid, holders will receive, if declared, a dividend calculated at the same rate and payable on the same basis as for the NIS.

If a dividend is not paid on the NIS preference shares, the Company cannot, in certain circumstances, pay distributions, redeem, buy back or reduce capital on any other shares of the Company that rank equally with or junior to the NIS preference shares. 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.

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. This may take place at any time after the fifth anniversary of the issue date of the NIS or earlier in certain limited circumstances.

NIS have no maturity date, are quoted on the stock market of 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. In a winding-up of the Company, the holders of fully paid NIS preference shares issued in connection with the NIS will generally rank equally with the holders of other preference shares of the Company with the same number with respect to priority on payment in winding-up (as specified in accordance with the constitution), and will rank for a return of capital on the NIS preference shares in priority to the holders of ordinary shares.

Share rights Trust Preferred Securities

On September 29, 2003, the Group raised GBP400 million through the issue by National Capital Trust I (a controlled entity) 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. In respect of each five year period after that date, a non-cumulative distribution payable is semi-annually in arrears at an annual rate equal to the five year benchmark UK government bond rate at the start of that period plus 1.93%. The securities are constituted by instruments governed by New York and Delaware law.

In certain limited circumstances, the Trust Preferred Securities will be exchanged for redeemable preference shares in the Company (TPS preference shares). These take the form of global depositary shares evidenced by global depositary receipts. The circumstances in which the exchange event will occur include if a distribution is not paid on the Trust Preferred Securities or if the Company does not maintain certain prudential regulatory standards. The Company also has discretion to exchange the Trust Preferred Securities for TPS preference shares at any time.

If issued, each holder of a TPS preference share would receive, if declared, non-cumulative dividends calculated at the same rate and payable on the same basis as apply to the Trust Preferred Securities.

If a distribution is not paid on the Trust Preferred Securities, or a dividend is not paid on the TPS preference shares, the Company cannot, with certain exceptions, pay distributions, redeem, buy back or reduce capital on any other shares or other capital instruments of the Company that rank equally with or junior to the securities unless it has paid 12 months distributions on the securities or an optional dividend.

Holders of the TPS preference shares (if issued) would be entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders were entitled to vote) on the basis of one vote per TPS 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 TPS preference shares.

With the prior consent of APRA, the Trust Preferred Securities may be redeemed in certain limited circumstances. These circumstances are 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 distributions for the last six month distribution period, and otherwise only where certain adverse tax or regulatory events have occurred, in which case the redemption price may include a make-whole adjustment to compensate the investor for the investment opportunity lost by the early redemption (except where the tax event relates to withholding tax).

The TPS preference shares may be redeemed at any time after their issue (except where the Company has exercised its discretion to issue the TPS preference shares, in which case they can only be redeemed if certain adverse tax or regulatory events have occurred). The redemption price includes a make-whole adjustment to compensate the investor for the investment opportunity lost by the early redemption (except where the redemption relates to withholding tax).

In a winding-up of the Company, the Trust Preferred Securities and (if issued) the TPS 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.

Share rights Trust Preferred Securities II

On March 23, 2005, the Group raised US$800 million through the issue by National Capital Trust II (a controlled entity) 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% per annum. For all distribution periods ending after March 23, 2015, each Trust Preferred Security earns a non-cumulative annual distribution, payable quarterly in arrears, equal to 1.5375% over three month LIBOR. The securities are constituted by instruments governed by New York and Delaware law.

In certain limited circumstances, the Trust Preferred Securities will be redeemed for redeemable preference shares in the Company (TPS preference shares). The circumstances in which the redemption for TPS preference shares will occur include if a distribution is not paid on the Trust Preferred Securities or if the Company does not maintain certain prudential regulatory standards. The Company also has discretion to redeem the Trust Preferred Securities for TPS preference shares at any time.

If issued, each holder of a TPS preference share would receive, if declared, non-cumulative dividends calculated at the same rate and payable on the same basis as apply to the Trust Preferred Securities.

If a distribution is not paid on the Trust Preferred Securities, or a dividend is not paid on the TPS preference shares, the Company cannot, with certain exceptions, pay distributions, redeem, buy back or reduce capital on any other shares or other capital instruments of the Company that rank equally with or junior to the securities unless it has paid 12 months distributions on the securities or an optional dividend.

Holders of the TPS preference shares (if issued) would be entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders were entitled to vote) on the basis of one vote per TPS 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 TPS preference shares.

With the prior consent of APRA, the Trust Preferred Securities may be redeemed in certain limited circumstances. These circumstances are on March 23, 2015 and after March 23, 2015, any business day selected by the Company in its absolute discretion, 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. Where the redemption is due to an adverse regulatory event, the redemption price will include a make-whole adjustment to compensate the investor for the investment opportunity lost by the early redemption.

The TPS preference shares may be redeemed at any time after their issue (except where the Company has exercised its discretion to issue the TPS preference shares, in which case they can only be redeemed if certain adverse tax or regulatory events have occurred or on any date on or after March 23, 2015). Where redemption occurs prior to March 23, 2015 due to a regulatory event, the redemption price includes a make-whole adjustment to compensate the investor for the investment opportunity lost by the early redemption.

In a winding-up of the Company, the Trust Preferred Securities and (if issued) the TPS 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.

Share Rights National Capital Instruments

Australian Issue

On September 18, 2006, the Group raised $400 million through the issue by National Australia Trustees Limited in its capacity as trustee of the National Capital Trust III (a special purpose trust established in and subject to the laws of Victoria, Australia) 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. The securities are constituted by instruments governed by Victorian and Delaware law.

In certain limited circumstances, the Australian NCIs will be redeemed for redeemable preference shares in the Company (Australian NCI Preference Shares). The circumstances in which the redemption for Australian NCI Preference Shares will occur include if a distribution is not paid on the Australian NCIs or if the Company does not maintain certain prudential regulatory standards. The Company also has discretion to redeem the Australian NCIs for Australian NCI Preference Shares at any time.

If issued, each holder of an Australian NCI Preference Share would receive, if declared, non-cumulative dividends calculated at substantially the same rate and payable on substantially the same basis as apply to the Australian NCIs.

If a distribution is not paid on the Australian NCIs, or a dividend is not paid on the Australian NCI Preference Shares, the Company cannot, with certain exceptions, pay distributions, redeem, buy back or reduce capital on any other shares or other capital instruments of the Company that rank equally with or junior to the securities unless it has paid 12 months distributions on the securities or an optional dividend.

Holders of the Australian NCI Preference Shares (if issued) would be entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders were entitled to vote) on the basis of one vote per Australian NCI 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 Australian NCI Preference Shares.

With the prior consent of APRA, the Australian NCIs may be redeemed in certain limited circumstances. These circumstances are on September 30, 2016 and any subsequent distribution payment date after September 30, 2016, in which case the redemption price is $50,000 per Australian NCI plus any accrued but unpaid distributions for the current distribution period, and otherwise only where certain adverse tax, regulatory or acquisition events have occurred.

The Australian NCI Preference Shares may be redeemed at any time after their issue (except where the Company has exercised its discretion to issue the Australian NCI Preference Shares, in which case they can only be redeemed if certain adverse tax, regulatory or acquisition events have occurred or on any date on or 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.

Euro Issue

On September 29, 2006, the Group raised EUR400 million through the issue by National Capital Instruments [Euro] LLC 2 (a controlled entity formed in Delaware) 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 securities are constituted by instruments governed by English and Delaware law.

However, if Euro NCIs were to cease to be eligible to qualify as Tier 1 Capital (other than on account of any applicable limitation on the amount of such capital) and APRA confirms that Capital Disqualification Event , distributions will become unconditional liabilities of National Capital Instruments [Euro] LLC 2.

In certain limited circumstances, the Euro NCIs will be redeemed for redeemable preference shares in the Company (Euro NCI Preference Shares). The circumstances in which the redemption for Euro NCI Preference Shares will occur include if a distribution is not paid on the Euro NCIs or if the Company does not maintain certain prudential regulatory standards. The Company also has discretion to redeem the Euro NCIs for Euro NCI Preference Shares at any time.

Euro NCI Preference Shares will not be issued if a Capital Disqualification Event occurs.

If issued, each holder of a Euro NCI Preference Share would receive, if declared, non-cumulative dividends calculated at substantially the same rate and payable on substantially the same basis as apply to the Euro NCIs.

If a distribution is not paid on the Euro NCIs, or a dividend is not paid on the Euro NCI Preference Shares, the Company cannot, with certain exceptions, pay distributions, redeem, buy back or reduce capital on any other shares or other capital instruments of the Company that rank equally with or junior to the securities unless it has paid 12 months distributions on the securities or an optional dividend.

Holders of the Euro NCI Preference Shares (if issued) would be entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders were entitled to vote) on the basis of one vote per Euro NCI 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 Euro NCI Preference Shares.

With the prior consent of APRA, the Euro NCIs may be redeemed in certain limited circumstances. These circumstances are on September 29, 2016 and any subsequent distribution payment date after September 29, 2016, in which case the redemption price is EUR50,000 per Euro NCI plus any accrued but unpaid distributions for the current distribution period, and otherwise only where certain adverse tax, regulatory or acquisition events have occurred.

The Euro NCI Preference Shares may be redeemed at any time after their issue (except where the Company has exercised its discretion to issue the Euro NCI preference shares, in which case they can only be redeemed if certain adverse tax, regulatory or acquisition events have occurred or on any date on or after September 29, 2016).

In a winding-up of the Company, the Euro NCIs and (if issued) the Euro 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.

Process for altering share rights

Unless otherwise provided by the terms of issue of a class of shares, the terms of issue of a class of shares in the Company can only be varied or cancelled in any way by a special resolution of the Company and with either the written consent of members holding at least three-quarters of the votes in that class of shares or with the sanction of a special resolution passed at a separate meeting of the holders of that class of shares.

Convening of and admission to general meetings

A director may call a meeting of the Company s shareholders. The directors must call and arrange to hold a general meeting of the Company if requested to do so by shareholders who hold at least 5% of the votes that may be cast at the general meeting or 100 shareholders each holding a marketable parcel and entitled to vote at the meeting. Shareholders who hold at least 5% of the votes that may be cast at a general meeting may also call and arrange to hold a general meeting of the Company at their own expense.

At least 28 days notice must be given of a meeting of the Company s shareholders. Written notice must be given to all shareholders entitled to attend and vote at the meeting. All ordinary shareholders are entitled to attend and, subject to the constitution and the *Corporations Act* 2001 (Cth), to vote at general meetings of the Company. Alternatively, ordinary shareholders may be represented by the attendance of a proxy, attorney or representative. Voting rights attaching to other classes of shares in the Company are set out above.

A quorum for a general meeting is five members present in person or by proxy, attorney or representative. If the meeting is convened on the requisition of members and a quorum is not present within half an hour of the time appointed,

the meeting will be dissolved. In all other cases where a quorum is not present within half an hour of the time appointed, the meeting shall stand adjourned to the same day in the next week at the same time and place, or to such other day, time and place as the directors appoint by notice to the members and others entitled to notice of the meeting. A quorum at an adjourned meeting is two persons, each being a member, proxy, attorney or representative. If a quorum is not present at an adjourned meeting within 15 minutes of the time appointed, the meeting is dissolved.

The directors may, in accordance with the constitution and the *Corporations Act* 2001 (Cth), determine a time before a meeting at which membership in the Company (for the purposes of the meeting) is to be ascertained in respect of holdings of shares that are quoted on the stock market of ASX.

Limitations on ownership and changes in control

The constitution does not contain any limitations on the rights to own securities in the Company. However, there are detailed Australian laws and regulations which govern the acquisition of interests in the Company, and a summary of those is set out in this shareholder information section under the heading exchange controls and other limitations affecting security holders below.

The constitution requires any sale or disposal of the Company s main undertaking to be subject to ratification by the Company in general meeting. Except for that provision, there are no provisions of the constitution that would have the effect of delaying, deferring or preventing a change in control of the Company which would operate only with respect to a merger, acquisition or corporate restructuring involving the Company or its controlled entities.

Constitution provisions governing disclosure of shareholdings

The constitution does not prescribe an ownership threshold above which share ownership must be disclosed. However, the *Corporations Act* 2001 (Cth) requires a person to disclose certain prescribed information to the Company and ASX if the person has or ceases to have a substantial holding in the Company. The term substantial holding is defined in the *Corporations Act* 2001 (Cth), and is not limited to direct shareholdings.

The *Corporations Act* 2001 (Cth) also permits the Company or ASIC to direct any member of the Company to make certain disclosures in respect of their interest in the Company s shares and the interest held by any other person in those shares.

Changes in capital

The constitution does not make any provision governing changes in the capital of the Company, which is more stringent than is required by law.

Material Contracts

Sale of National Europe Holdings (Ireland) Limited

The Company and National Europe Holdings Limited (NEHL) entered into an agreement with Danske Bank A/S on December 14, 2004 in respect of the sale of all of the share capital of National Europe Holdings (Ireland) Limited (NEHIL). NEHIL is the immediate parent entity of Northern Bank Limited and National Irish Bank Limited.

The sale of the shares in NEHIL was completed on February 28, 2005. The purchase price paid to NEHL for the share capital of NEHIL was approximately $2.5 billion (GBP967 million) in cash. This amount was adjusted by an immaterial amount at completion to reflect changes in the net asset value of the entity between the last balance date (September 30, 2004) and completion (February 28, 2005). All debt owed by the businesses being sold, to entities in the Group was either repaid or novated to Danske Bank A/S at face value. The Company guaranteed the performance by NEHL as vendor under the agreement.

Under the agreement, warranties, primarily in relation to the businesses of Northern Bank Limited and National Irish Bank Limited, were given. Those warranties are of a kind usual in transactions of this nature and size. Danske Bank A/S was also given indemnities in respect of certain specified risks associated with the businesses of Northern Bank Limited and National Irish Bank Limited (including in respect of any liabilities arising in connection with the matters the subject of an investigation). These warranties and indemnities are in some cases subject to various time limitations and liability caps and restrictions. In addition, undertakings have been given to protect the value of the businesses acquired, effectively preventing the Company and its subsidiaries from engaging in certain competing activities in Northern Ireland or the Republic of Ireland and from soliciting employees of the businesses for two years after completion.

Exchange controls and other limitations affecting security holders

There are no limitations under the Company s constitution restricting the rights of non-resident or foreign owners of ordinary shares to have an interest in or vote on their securities.

Mergers, acquisitions and divestments of Australian public companies listed on the ASX are regulated by detailed and comprehensive legislation and the rules and regulations of the ASX.

In summary, under the *Corporations Act* 2001 (Cth), a person must not acquire a relevant interest in issued voting shares in an Australian listed company if, broadly, because of the transaction, that person s or someone else s voting power in the company increases from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%, unless those shares are acquired in a manner specifically permitted by law. This restriction also limits the options available to a shareholder wanting to sell a shareholding of more than 20% in an Australian listed company.

The concepts of relevant interest and voting power are very broadly defined and shareholders should seek their own advice on their scope. In very general terms:

a person has a relevant interest in securities broadly if they hold the securities or have the power to vote or dispose of the securities or are deemed to have a relevant interest;

a person s voting power in a company is broadly the total number of votes attached to all the voting shares in the company that the person or an associate has a relevant interest in, divided by the total number of votes attached to all voting shares in the company; and

an associate is widely defined in Divisions 1 and 2 of Part 1.2 of the *Corporations Act* 2001 (Cth) and includes, depending on the context, parent companies or subsidiaries of the holder and persons with whom the holder has entered into various types of

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agreements, arrangements or understandings (formal or informal) in relation to certain matters concerning shares, the affairs of the company or the composition of its board of directors.

The *Corporations Act* 2001 (Cth) also imposes certain substantial shareholding disclosure obligations on persons who are or become entitled to 5% or more of the voting shares in a company listed on ASX, such as the Company.

One of the more common manners in which a controller shareholding is acquired in an Australian listed company is by a takeover offer. The form and content of the documentation are regulated by law. Australian takeover law purports to have extra-territorial force. Therefore, Australian law may apply to transactions outside Australia with respect to non-Australian companies if that transaction affects the control of voting shares in an Australian listed company.

Australian law also regulates acquisitions, which would have the effect, or be likely to have the effect, of substantially lessening competition in a market in Australia, in a state or in a territory of Australia.

Acquisitions of certain interests in Australian listed companies by foreign interests are subject to review and approval by the Treasurer of the Commonwealth of Australia under the *Foreign Acquisitions and Takeovers Act* 1975 (Cth) (FATA). The FATA applies to any acquisition of 15% or more of the outstanding shares of an Australian listed company or any acquisition, which results in one foreign person (including a company) or group of associated foreign persons controlling 15% or more of total voting power. In addition, the FATA applies to any acquisition by non-associated foreign persons controlling, in the aggregate, 40% or more of total voting power or ownership.

In addition, there are specific limitations on the acquisition of a shareholding in a bank under the *Financial Sector (Shareholdings) Act* 1998 (Cth). Under this Act, a person (including a company) must not acquire an interest in an Australian financial sector company where the acquisition would take that person s voting power (which includes the voting power of the person s associates) in the financial sector company to more than 15% of the voting power of the financial sector company without first obtaining the Treasurer s approval. Even if a person has less than 15% of the voting power, the Treasurer has the power to declare that a person has practical control of that company and, by applying for an order from the Federal Court of Australia may require the person to relinquish that control. The definition of a financial sector company includes banks, such as the Company. It also includes authorised insurance companies or an authorised insurance company s holding company. Three of the Company s controlled entities are authorised insurance companies.

Subject to compliance with the FATA and the *Financial Sector (Shareholdings) Act* 1998 (Cth), non-residents of Australia have the same rights to hold shares and to vote as residents of Australia.

There are no formal prohibitions on the diversification by banks through equity involvements or investments in subsidiaries. However, without the consent of the Treasurer, no bank may enter into any agreement or arrangement for the sale or disposal of its business (by amalgamation or otherwise), or for the carrying on of business in partnership with an ADI, or effect a reconstruction.

There are no general foreign exchange restrictions in effect in Australia at the present time. However, the specific approval of the RBA must be obtained in connection with certain payments and transactions having a prescribed connection with countries and entities designated from time to time by the RBA for the purposes of the Banking (Foreign Exchange) Regulations. Regulations in Australia also prohibit payments, transactions and dealings with assets having a prescribed connection with certain countries, named individuals, or entities associated with terrorism.

Taxation

The taxation discussion set forth below is intended only as a descriptive summary, and does not purport to be a complete technical analysis or listing of all potential Australian, UK, New Zealand or US tax effects to US persons who are American depositary receipt holders, holders of shares, or holders of trust preferred securities (US holders). Such US holders are advised to satisfy themselves as to the overall tax effects, including state and local tax effects, by consulting their own tax advisers. This summary is based in part on representations of the depositary, and assumes that each obligation provided for in or otherwise contemplated by the deposit agreement and any related agreement will be performed in accordance with its terms. Except as otherwise noted, the statements of Australian, UK, New Zealand or US tax laws set out below are based on the laws in force as at the date of this annual financial report, and are subject to any changes in Australian, UK, New Zealand or US laws and in any double taxation convention between Australia and the UK, New Zealand or the US occurring after that date.

Australian taxation

Under Australian taxation law, non-residents of Australia for tax purposes may be subject to withholding tax in respect of dividends received from shares in Australian companies depending upon the extent to which the dividends are franked. Under the foreign conduit income system, the unfranked portion of a dividend paid to non-residents of Australia may not be subject to Australian withholding tax if the unfranked amount is sourced from certain foreign income earned by the Australian company on which foreign tax has been paid. In accordance with the provisions of the Australian/US double tax agreement, withholding tax on dividend income derived by a non-resident of Australia, who is a resident of the US, is limited to 15% of the gross amount of the dividend.

Under the current Australian dividend imputation system, to the extent that dividends are paid out of income on which Australian income tax has been levied, such dividends are considered as franked dividends to that same extent. Where an Australian resident shareholder for tax purposes receives a franked dividend, the shareholder receives an imputation tax credit, which can be offset against the Australian income tax payable by the shareholder.

The amount of the credit is dependent upon the extent to which the dividend paid is a franked dividend. Excess imputation tax credits are refundable to Australian resident shareholders for tax purposes who are individuals, superannuation funds or charities. Non-resident shareholders for tax purposes who do not hold the shares in connection with a permanent establishment in Australia, rather than receiving a credit, are exempt from dividend withholding tax in respect of franked dividends received. Non-resident shareholders for tax purposes are not entitled to a refund of excess imputation tax credits.

The Company paid an 80% franked interim dividend out of the profit for the half year ended March 31, 2006 and has declared a 90% franked final dividend out of the profit for the year ended September 30, 2006. The franked portion of these dividends carry 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, the unfranked portion of the dividend will be paid from the Company s foreign conduit income account and therefore will not be subject to Australian withholding tax.

Subject to certain exceptions, a non-resident shareholder for tax purposes disposing of shares in Australian listed companies will be free from tax in Australia. The exceptions relate to capital assets that are treated as having the necessary connection with Australia. The following two exceptions are relevant to disposals of shares:

shares held as part of a business conducted through a permanent establishment in Australia. In such a case, any profit on disposal would be assessable to ordinary income tax. Any loss would constitute an allowable deduction; and

shares held in Australian resident public companies where such shares represent an associate inclusive holding of 10% or more by value in the shares of the company. In such a case, capital gains tax would apply, but not otherwise.

Recently released Taxation Laws Amendment (2006 Measures No. 4) Bill 2006 proposes amendments to tax legislation, such that Australian CGT will no longer have application to non-residents in respect of assets such as ordinary or preference shares (that are not held through an Australian permanent establishment) under any circumstances. The Bill, if passed, is proposed to take effect for CGT events occurring on or after the date of Royal Assent of the Bill.

In calculating any capital gains in respect of the disposal of assets (including shares) acquired on or after October 1, 1999, indexation of the cost of the assets for inflation is not available. Individuals are subject to Australian tax on 50% of any actual capital gains (ie. without inflation indexation) on the disposal of assets acquired on or after October 1, 1999 and held for at least 12 months. In the case of superannuation (pension) funds, two-thirds of any actual capital gains on the disposal of assets acquired on or after October 1, 1999 are subject to Australian tax, provided the assets have been held for at least 12 months.

For the disposal of assets acquired prior to October 1, 1999, indexation of the cost of assets is frozen as at September 30, 1999. However, for such asset disposals, individuals are able to choose whether to be taxed on any capital gain (after allowing for indexation of the cost to September 30, 1999) or 50% of any actual capital gain. Superannuation (pension) funds are also able to make the same election for the disposal of assets acquired prior to October 1, 1999; however, if an election is made to be taxed on any actual capital gain, two-thirds of the actual capital gain will be subject to Australian tax.

Normal rates of income tax will continue to apply to taxable capital gains so calculated. Capital losses are not subject to indexation; they are available as deductions, but only in the form of an offset against capital gains (whether capital gains net of the frozen indexation or actual capital gains on assets acquired on or after October 1, 1999). Any excess capital losses can be carried forward for offset against future capital gains.

UK dividend plan (UKDP)

The UKDP enables a shareholder of the Company who elects to participate in the UKDP to receive dividends from a UK controlled entity of the Company, as an alternative to the cash component of dividends paid on ordinary shares in the Company. Dividends from UK companies continue to carry a tax credit of 10% of the grossed up amount of the dividend, which can be utilised by certain shareholders.

The Company s Australian resident corporate shareholders obtain no tax credits on a dividend paid by the UK controlled entity. Dividends received from the Company on ordinary shares which do not participate in the UKDP carry an Australian imputation tax credit to the extent those dividends are franked.

In addition, participants of the UKDP should not suffer Australian capital gains tax due solely to their participation in, or withdrawal from, the UKDP.

US federal income taxation

This section applies only to persons who hold the Company s shares or trust preferred securities as capital assets for United States federal income tax purposes.

For purposes of this section, a US holder is a beneficial owner of shares or trust preferred securities and:

a citizen or resident of the United States;

a corporation created or organised in or under the laws of the US or any state thereof or the District of Columbia;

an estate whose income is subject to United States federal income tax regardless of its source; or

a trust if a United States court can exercise primary supervision over the trust s administration and one or more United States persons are authorised to control all substantial decisions of the trust.

This section does not apply to any member of a special class of holders subject to special rules, including a dealer in securities, a trader in securities that elects to use a mark-to-market method of accounting for securities holdings, a tax-exempt organisation, a life insurance company, a person liable for alternative minimum tax, a person that actually or constructively owns 10% or more of the Company s voting stock, a person that holds shares as part of a straddle or a hedging or conversion transaction, or a US holder whose functional currency is not the US dollar.

Company s shares

A US holder of the Company s shares must include in gross income, the gross amount of any dividend paid by the Company out of earnings and profits (as determined for US federal income tax purposes), including any Australian income tax withheld from the dividend payment. Dividends paid to an individual US holder in taxable years beginning before January 1, 2011, that constitute qualified dividend income will be taxable at a maximum rate of 15% provided that the US holder holds the shares for more than 60 days during the 121 day period beginning 60 days before the ex-dividend date and meets other holding period requirements. Dividends paid by the Company with respect to the shares generally will be qualified dividend income. The dividend is taxable to a US holder when the US holder receives the dividend, actually or constructively. The dividend will not be eligible for the dividends received deduction generally allowed to US corporations in respect of dividends paid by US corporations. Subject to certain limitations, any Australian tax withheld from a dividend will be creditable against a US holder s US federal income tax liability. Dividends will be income from sources outside the United States. Dividends paid in taxable years beginning before January 1, 2007, with certain exceptions, will be passive or financial services income, but dividends paid in taxable years beginning after December 31, 2006, generally, will be passive or general income.

For US federal income tax purposes, US holders will not be entitled to a tax credit for the 10% UK tax credit attached to dividends paid by the UK controlled entity under the UKDP.

The Company s distributions in excess of its current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of the US holder s basis in the shares and thereafter as capital gain.

A US holder who sells or otherwise disposes of shares will recognise capital gain or loss for United States federal income tax purposes equal to the difference between the US dollar value of the amount realised and its tax basis, determined in US dollars, in the shares. A capital gain of a non-corporate US holder that is recognised before January 1, 2011 is generally taxed at a maximum 15% tax rate where the holder has a holding period greater than one year.

Trust preferred securities

As National Capital Trust I and National Capital Trust II are classified as a grantor trust for US federal income tax purposes, a US holder of trust preferred securities, as defined above, is required to include in its gross income its share of the taxable income realised by the trust.

The debentures, the subordinated notes and the convertible debentures indirectly held by National Capital Trust I and National Capital Trust II, respectively, should be treated as equity of the Company for US federal income tax purposes. The holders of the trust preferred securities by acceptance of a beneficial interest in a trust preferred security have agreed to treat the debentures, the subordinated notes and convertible debentures as equity of the Company for US federal income tax purposes.

Interest paid on the debentures, the subordinated notes and the convertible debentures and additional amounts paid with respect to withholding taxes, if any, will constitute dividends for US federal income tax purposes to the extent paid out of current or accumulated earnings and profits of the Company (as determined for US federal income tax purposes). Generally, the US federal income tax treatment of the dividends, distributions in excess of current and accumulated earnings and profits (as determined for US federal income tax purposes), and the capital gains or losses on disposal of the Company s shares described in the preceding section applies to the dividends, distributions in excess of current and accumulated earnings and profits (as determined for US federal income tax purposes), and the capital gains or losses on disposal of the trust preferred securities and the Company s preference shares for which such securities may be redeemed.

If upon the occurrence of certain events, the trust preferred securities are redeemed for the Company s preference shares, such redemption will not be a taxable event to a US holder of trust preferred securities for US federal income tax purposes. A US holder s tax basis in the Company s preference shares so received will generally be the same as such holder s tax basis in the trust preferred securities redeemed, and a US holder s holding period in the Company s preference shares will generally include such holder s holding period in the trust preferred securities redeemed.

Under certain circumstances, the trust preferred securities may be redeemed for cash. If the redemption is made in connection with the redemption of the debentures or the convertible debentures indirectly held by National Capital Trust I and National Capital Trust II, respectively, each US holder of the trust preferred securities must include in income its share of any income, gain or loss recognised by the trust on the redemption. Payments received by a US holder upon a redemption, in whole or in part, of the trust preferred securities will first be treated as reducing such holder s adjusted tax basis in its trust preferred securities, and any excess generally will be treated as capital gain.

New Zealand taxation

The Company is now able to attach available New Zealand imputation credits to dividends paid. As a result, New Zealand imputation credits of NZ$0.09 per share will be attached to the final 2006 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. A separate shareholder dividend statement will be provided to shareholders setting out details of the New Zealand imputation credits attached to the final 2006 ordinary dividend. The extent to which future dividends will carry New Zealand imputation credits will depend on a number of factors, including the level of the Group s profits that are subject to New Zealand tax.

Exchange rates

Fluctuations in the exchange rate between the Australian dollar and the US dollar will affect the US dollar equivalent of the Australian dollar prices of the fully paid ordinary shares of the Company and, as a result, may affect the market price of the ADSs in the US. (A description of the ADSs appears under the heading American depositary shares representing ordinary shares (ADSs) above.)

Such fluctuations will also affect the US dollar conversion by the depositary of cash dividends paid in Australian dollars on the fully paid ordinary shares represented by the ADSs. *Refer to selected financial data on page 8 for the high, low, average and year-end noon buying exchange rates for the Company s last five years.*

Documents

Documents concerning the Company that are referred to in this annual financial report may be inspected at the registered office.

In addition, the Company files reports and other information with the US SEC. Shareholders can read and copy these reports and other information at the SEC Public Reference Room at 450 Fifth Street, North West, Washington DC 20549.

Shareholders can telephone the SEC at 1-800-SEC-330 for further information on the Public Reference Room. Once reports are lodged with the SEC, you can view them electronically at the SEC website at www.sec.gov through EDGAR. Shareholders can also read and copy these reports and other information at New York Stock Exchange, Inc., 20 Broad Street, New York NY 10005.

Twenty largest registered fully paid ordinary shareholders of the Company as at November 10, 2006

	Number of shares	%
National Nominees Limited	208,612,594	12.81
Westpac Custodian Nominees Limited	174,531,994	10.72
Chase Manhattan Nominees Limited	171,843,200	10.56
ANZ Nominees Limited, CASH INCOME A/C	53,878,561	3.31
Citicorp Nominees Pty Limited	50,267,005	3.09
Queensland Investment Corporation	26,781,615	1.65
Cogent Nominees Pty Limited	25,251,522	1.55
AMP Life Limited	15,136,040	0.93
HSBC Custody Nominees (Australia) Limited	14,732,546	0.91
National Australia Trustees Limited	12,805,245	0.79
RBC Dexia Investor Services Australia Nominees Pty Limited, PIPOOLED A/C	10,936,704	0.67
Citicorp Nominees Pty Limited, CFS WSLE GEARED SHR FND A/C	8,622,390	0.53
ANZ Nominees Limited, BONUS SHARE PLAN A/C	7,972,593	0.49
Citicorp Nominees Pty Limited, CFS WSLE IMPUTATION FUND A/C	7,537,047	0.46
Westpac Financial Services Limited	7,212,086	0.44
RBC Dexia Investor Services Australia Nominees Pty Limited, BKCUST A/C	7,143,532	0.44
Australian Foundation Investment Company Limited	6,839,612	0.42
UBS Nominees Pty Ltd, 116C A/C	6,410,000	0.39
RBC Dexia Investor Services Australia Nominees Pty Limited	5,930,577	0.36
Australian Reward Investment Alliance	5,853,379	0.36
	828,298,242	**50.88**

The 20 largest registered shareholders held 828,298,242 fully paid ordinary shares, which is equal to 50.88% of the total issue capital of 1,627,996,847 fully paid ordinary shares.

Substantial shareholders

As at November 10, 2006, 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	237,276	64.0	94,581,535	5.8
1,001 5,000	108,575	29.3	235,034,059	14.4
5,001 10,000	15,051	4.1	105,395,327	6.5
10,001 100,000	9,199	2.5	194,008,495	11.9
100,001 and over	401	0.1	998,977,431	61.4
	370,502	**100.0**	**1,627,996,847**	**100.0**
Less than marketable parcel of $500	8,106		46,736	

Shares held in trust under the Company s employee share plans are registered as one shareholding in the name of the trustee.

	Number of Shareholders	% of Holders	Number of Shares	% of Shares
Address of holders				
Australia	347,573	93.8	1,607,325,933	98.7
United Kingdom	12,551	3.4	6,582,333	0.4
New Zealand	7,274	2.0	9,069,156	0.6
United States	516	0.1	633,901	*
Other overseas	2,588	0.7	4,385,524	0.3
	370,502	**100.0**	**1,627,996,847**	**100.0**

* Due to the small number of these ordinary shareholders, the amounts round down to nil.

Voting rights

The voting and other rights attaching to ordinary shares are set out in the section entitled the Company s constitution on page 271.

Twenty largest registered National Income Securities (NIS) holders as at November 10, 2006

	Number of securities	%
Chase Manhattan Nominees Ltd	1,486,089	7.43
ANZ Nominees Limited CASH INCOME A/C	1,097,252	5.49
Westpac Custodian Nominees Limited	806,665	4.03
National Nominees Limited	486,466	2.43
Australian Foundation Investment Company Limited	407,721	2.04
RBC Dexia Investor Services Australia Nominees Pty Limited, MLCI A/C	319,910	1.60
UBS Wealth Management Australia Nominees Pty Ltd	259,420	1.29
Citicorp Nominees Pty Limited	229,060	1.15
Cogent Nominees Pty Limited, SMP ACCOUNTS	201,152	1.00
The University of Sydney	199,713	1.00
RBC Dexia Investor Services Australia Nominees Pty Limited, JBENIP A/C	197,543	0.99
Australian Executor Trustees Limited, No 1 ACCOUNT	167,063	0.84
UBS Nominees Pty Ltd	166,588	0.83
Questor Financial Services Limited, TPS RF A/C	146,032	0.73
Cambooya Pty Limited	108,490	0.54
Citicorp Nominees Pty Limited, CFSIL CWLTH SPEC 5 A/C	104,791	0.52
Goldman Sachs JBWere Capital Markets Ltd, HYBRID PORTFOLIO A/C	101,178	0.51
Invia Custodian Pty Limited BEST SUPERANNUATION P/L A/C	100,000	0.50
Cogent Nominees Pty Ltd	97,431	0.49
Private Nominees Limited	94,397	0.47
	6,776,961	**33.88**

The 20 largest registered NIS holders held 6,776,961 NIS, which is equal to 33.88% of the total issue of 20,000,000 NIS.

Distribution of NIS holdings

	Number of holders	% of Holders	Number of securities	% of Securities
Range (number)				
1 1,000	37,391	95.7	7,357,221	36.8
1,001 5,000	1,428	3.7	2,908,839	14.5
5,001 10,000	118	0.3	832,655	4.2
10,001 100,000	97	0.3	2,416,152	12.1
100,001 and over	17	*	6,485,133	32.4
	39,051	**100.0**	**20,000,000**	**100.00**
Less than marketable parcel of $500	17		47	
Address of holders				
Australia	38,292	98.1	19,218,718	96.1
United Kingdom	632	1.6	701,582	3.5
New Zealand	31	0.1	11,377	0.1
United States	16	*	9,938	*
Other overseas	80	0.2	58,385	0.3
	39,051	**100.0**	**20,000,000**	**100.0**

* Due to the small number of these NIS holders, the amounts round down to nil.

Voting rights

The voting and other rights attaching to the NIS are set out in the section entitled the Company s constitution on page 271.

National Australia Bank Limited

Chairman
Mr Michael A Chaney
AO, BSc, MBA, Hon. LLD Western Australia,
FAIM, FAICD

Registered office

35th Floor
500 Bourke Street
Melbourne Victoria 3000
Australia
Telephone: 1300 367 647

Group Chief Executive Officer
Mr John M Stewart
BA, ACII, FCIB

Auditor

Ernst & Young
Chartered Accountants
8 Exhibition Street
Melbourne Victoria 3000
Australia
Telephone: +61 3 9288 8000
Fax: +61 3 8650 7777

Finance Director and Group Chief Financial Officer
Mr Michael J Ullmer
BSc (Maths) (Hons), FCA, SF FIN

Group 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, including change of address forms, from the Share Registrar. 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 Registrar, 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:
GPO Box 2333
Melbourne Victoria 3001
Australia

Local call: 1300 367 647
Fax: (03) 9473 2500

Telephone and fax (outside Australia):
Tel: +61 3 9415 4299; Fax: +61 3 9473 2500
Email: web.queries@computershare.com.au

UK branch share register

C/- Computershare Investor Services PLC
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United Kingdom

Tel: (0870) 703 0197
Fax: (0870) 703 6101

Website: www.computershare.com

US ADR depositary, transfer agent and registrar

The Bank of New York
Investor Services
Church Street Station
PO Box 11258
New York NY 10286 - 1258
United States of America

US Toll Free
Tel: +1 (888) 269 2377

Email: shareowners@bankofny.com
Website: www.adrbny.com

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Official quotation

Fully paid ordinary shares of the Company are quoted on the following stock exchanges:

Australian Stock Exchange Limited;

London Stock Exchange PLC;

Stock Exchange, New Zealand; and

New York Stock Exchange, Inc.

In the US, the Company s ordinary shares are traded in the form of American depositary shares evidenced by American depositary receipts issued by The Bank of New York Company, Inc.

The Group has also issued:

exchangeable capital units which are quoted on the stock market of New York Stock Exchange, Inc., and are also quoted on the Luxembourg Stock Exchange;

National Income Securities which are quoted on the stock market of Australian Stock Exchange Limited;

Trust Preferred Securities which are quoted on the stock market of Luxembourg Stock Exchange;

Trust Preferred Securities II which are quoted on the stock market of Channel Islands Stock Exchange; and

National Capital Instruments which are quoted on the stock market of Luxembourg Stock Exchange.

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Glossary

Term used	Brief description
AASB	Australian Accounting Standards Board
ACCC	Australian Competition and Consumer Commission
ADI	Authorised deposit-taking institution
ADR	American depositary receipt
ADS	American depositary share
AIFRS	Australian equivalents to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange (the stock market conducted by Australian Stock Exchange Limited)
Australian GAAP	Generally accepted accounting principles applicable in Australia
Company	National Australia Bank Limited
FASB	Financial Accounting Standards Board
GAAP	Generally accepted accounting principles
Group	National Australia Bank Limited and its controlled entities
Irish Banks	Northern Bank Limited and National Irish Bank Limited
NAB	National Australia Bank Limited
nabCapital	Formerly Institutional Markets & Services (IMS)
Non-GAAP	A financial measure which is either a numeric measure or ratio of historical or future financial performance, financial position, or cash flows that excludes or includes amounts which are included or excluded in a GAAP measure
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standard (issued by the US FASB)
UK	United Kingdom
US	United States of America
US GAAP	Generally accepted accounting principles applicable in the United States of America

Term used	Closest US equivalent or brief description
Asset quality disclosure	Impaired assets
Asset revaluation reserve	Increase or temporary decrease in valuation of certain assets as compared with historical cost
Charge to provide for doubtful debts	Provision for loan losses
Constitution	By-laws
Depreciation	Amortisation
Equity	Shareholders equity
Finance lease	Capital lease
Freehold	Ownership with absolute rights in perpetuity
Loans and advances	Lendings
Net profit	Net income
Ordinary shares	Common stock
Ordinary shares, fully paid	Ordinary shares, issued and fully paid
Overdraft	A line of credit, contractually repayable on demand unless a fixed term has been agreed, established through a customer s current account
Preference shares	Preferred stock
Provisions	Allowances
Provisions for doubtful debts	Allowances for loan losses
Share capital	Ordinary shares or common stock issued
Significant item	Item of such a size, nature or incidence that its disclosure is relevant in explaining the financial performance of the entity

Write-offs	Charge-offs

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Principal establishments

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Fax: +1 212 983 1969

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Fax: + 852 2845 9251
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SIGNATURE PAGE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

NATIONAL AUSTRALIA BANK LIMITED

Signature: /s/ ***Brendan T Case***

Date: 6 December 2006

Name: Brendan T Case

Title: Associate *Company Secretary*