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3.74

%

3.88

%

Net interest spread (2)

3.02

%

3.32

%

3.54

%

Average balance sheet (£bn)

Gross loans and acceptances	
	19.6
	17.4
	15.6
	12.6
	25.6
Interest-earning assets	
	20.6
	18.2
	16.8
	13.2

	22.6
Retail deposits	
	12.4
	11.6
	11.2
	6.9
	10.7

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(2) The September 2005 half year net interest spread has been restated upwards by 30 basis points to reflect a change to the treatment of intercompany liabilities. There has been no impact to Group net interest spreads.

(3) Including UK based employees of the Group s Institutional Markets & Services business.

Key Performance Measures

	As at 31 Mar 06	30 Sep 05	31 Mar 05
Full-time equivalent employees (FTE)	**9,246**	9,480	9,772
Asset quality			
Gross non-accrual loans (£m)	**58**	48	60
Gross loans and acceptances (£bn)	**21.1**	18.6	16.3
Gross non-accrual loans to gross loans and acceptances	**0.27%**	0.26%	0.37%
Specific provision to gross impaired assets	**21.8%**	78.6%	56.0%
Financial advisers			
Bank channels	**114**	115	112
Aligned channels	**52**	43	53
Financial advisers (no.)	**166**	158	165
Funds under management and administration (£m)	**1,774**	1,623	1,513

Financial performance of ongoing operations (in local currency) movement on September 2005 half

Cash earnings before significant items increased 13.7% on the September 2005 half reflecting increased underlying income and flat expenditure, partially offset by higher charges to provide for doubtful debts.

Underlying profit increased 10.1% on the September 2005 half driven by the following factors:

Net interest income has increased 9.7%. After adjusting for the income received from the Irish Banks sale proceeds in the half year to September 2005 and the impact of the introduction of AIFRS, underlying net interest income has increased 6.2%. Continued growth in customer lending and deposit balances was partially offset by planned margin contraction and changes to the portfolio mix;

Average lending balances increased 12.6%; 21.1% from integrated Financial Solutions Centres and Third Party Distribution. The continuing focus on mortgage lending, consistent with our growth strategy, has resulted in growth of average mortgage balances of 18.3%; 17.5% from integrated Financial Solutions Centres, 133.2% in the Third Party Distribution channel, and 2.7% from the branch network;

Average retail deposit balances grew 6.9% driven by improved sales focus and pricing initiatives;

The net interest margin has decreased 9 basis points from 3.74% to 3.65%. The movement, adjusted for the Irish Banks sale proceeds income and the introduction of AIFRS, is a decrease of 20 basis points. This reflects managed margin contraction and the planned shift to lower-margin products across the lending and deposit portfolios. Within Lending, higher margin personal loans and credit cards have shown a small decrease while other lending has shown strong growth.

Other operating income has decreased 5.3% reflecting:

AIFRS accounting policy changes driving a net £21 million decrease through the deferral of lending fees partly offset by the mark to market valuations of AIFRS defined ineffective hedges;

A one off profit of £21 million in the September 2005 half for property disposals with a residual £1 million received in the March 2006 half;

Partially offset by:

an increase in underlying origination fees of £6.3 million driven by the volume growth of the integrated Financial Solutions Centres and third party propositions;

Wealth Management creditor profit share, which is received in the first half, of £8.3 million;

£5.3 million sales proceeds from the sale of the UK Discretionary Investment management business to Tilney Investment Management;

increased Danske Bank A/S transitional service income (offset in expenses) of £5.4 million as a result of the sale of the Irish Banks in February 2005;

After adjusting for one-off items, including AIFRS, other operating income has increased by 8.8%.

Operating expenses have decreased 0.2% driven by:

£21 million incremental savings from the restructuring initiatives provided for in the March 2005 half which have delivered a gross spot FTE reduction of 453 in the March 2006 half;

decreased investment project spend of £10 million;

Partially offset by:

direct costs associated with the growth programme (£12.9 million) including the costs of approximately 130 new staff in the integrated Financial Solutions Centres, and additional property associated costs, advertising and marketing costs, and additional brokerage commission costs as a result of higher mortgage completions through the third party channel;

increased Danske Bank A/S transitional service expenses (offset in income) of £5.4 million;

increased salary costs of £6 million as a result of annual salary reviews and performance related bonus.

The charge to provide for doubtful debts has increased 22.6% as compared to the September 2005 half. This reflects additional provision charges related to increased lending growth and the continued deterioration seen across the UK market in credit cards and personal lending books. Specific provisions to gross impaired assets decreased from 78.6% at 30 September 2005 to 21.8% at March 2006 primarily due to a transfer from specific provision to collective provision upon adoption of AIFRS.

During the period a number of strategies have been put in place to mitigate these industry effects. The lending decision process has been tightened, particularly around personal loans and credit cards and in the direct channels area, along with more rigorous fraud review processes. More pro-active collections strategies have been implemented including increased collections staff and improved pre-delinquency management.

Financial performance of ongoing operations (in local currency) movement on March 2005 half

Cash earnings before significant items decreased 1.8% on the March 2005 half reflecting higher income offset by increased expenses and charges to provide for doubtful debts.

Underlying profit increased by 12.9% with the following factors driving the result:

Net interest income has increased 15.1%. After adjusting for the interest received on the Irish Banks sale proceeds (£4.4 million in the March 2005 half) and the impact of the introduction of AIFRS, net interest income has increased 8.2%. This increase reflects the growth of the integrated Financial Solutions Centres and third party distribution network with strong underlying volume growth being partially offset by the managed effects of margin contraction and changing portfolio mix;

Average lending volumes increased 25.6% on the prior corresponding period (integrated Financial Solutions Centres and Third Party Distribution increased 41.9%). The continuing focus on mortgage lending has resulted in growth of mortgage volumes of 32.0%;

Average retail deposit volumes grew 10.7% driven by pricing initiatives on existing products and the launch of Current Account Plus designed to attract new to bank customers.

The net interest margin has decreased 23 basis points from 3.88% to 3.65%. Excluding the benefit of the proceeds from the sale of the Irish Banks, held for one month in the March 2005 half, and the introduction of AIFRS, the underlying margin decline was 44 basis points. This decline reflects margin contraction and the planned shift to lower margin products across the portfolio. Within lending, higher margin personal loans and credit cards have shown a small decrease while other lending has shown strong growth. Savings accounts have been re-priced to attract deposit growth and customers have moved to lower margin products.

Other operating income is 12.6% higher reflecting:

an underlying increase in origination fees of £12.4 million driven by the growth of the integrated Financial Solutions Centres and third party propositions;

£5.3 million sale proceeds from the sale of the UK Discretionary Investment management business to Tilney Investment Management;

increased income from Danske Bank A/S of £20.4 million for the provision of transitional services (offset in expenses) as March 05 half only included one month of services; offset by

AIFRS accounting policy changes driving a net £21.0 million decrease through the deferral of lending fees offset by the fair value impact of ineffective accounting hedges;

Operating expenses have increased 14.7% driven by:

increase of £20.4 million due to costs associated with transitional services provided to Danske Bank A/S (offset in income);

direct costs associated with the UK Growth Programme which have increased by £33.9 million including the recruitment and ongoing costs of 286 staff in the integrated Financial Solutions Centres, additional property associated costs, advertising and marketing costs, additional brokerage commission costs as a result of more mortgage completions through the third party channel;

increased salary costs of £9.1 million as a result of annual salary reviews and performance related bonus;

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overhead costs previously internally charged to the Ireland operation of £16 million;

indirect costs associated with growing the balance sheet;

Partially offset by;

a further £21 million savings this half (in addition to the annualised savings from the prior half) from the restructuring initiatives provided for in the March 2005 half which have generated an additional 453 gross spot FTE reduction in the March 2006 half.

The charge to provide for doubtful debts increased by £30 million on the March 2005 half. This reflects additional provision charges related to increased lending growth and the continued deterioration seen across the UK market in credit cards and personal lending books. Specific provisions to gross impaired assets decreased from 56% at 31 March 2005 to 21.8% at 31 March 2006 primarily due to a transfer from specific provision to collective provision upon adoption of AIFRS.

During the period a number of strategies have been put in place to mitigate these industry effects. The lending decision process has been tightened, particularly around personal loans and credit cards and in the direct channels area, along with more rigorous fraud review processes. More pro-active collections strategies have been implemented including increased collections staff and improved pre-delinquency management.

Supplementary Performance Summary (includes ongoing and disposed operations - eg. includes the Irish Banks)

		Half Year to		**Fav/(Unfav) Change on**	
	Mar 06	**Sep 05**	**Mar 05**	**Sep 05**	**Mar 05**
	$m	**$m**	**$m**	**%**	**%**
Australian dollars					
Net interest income	**883**	813	981	8.6	(10.0)
Other operating income	**590**	631	618	(6.5)	(4.5)
Total income	**1,473**	1,444	1,599	2.0	(7.9)
Operating expenses	**(954)**	(967)	(1,066)	1.3	10.5
Underlying profit	**519**	477	533	8.8	(2.6)
Charge to provide for doubtful debts	**(152)**	(126)	(90)	(20.6)	(68.9)
Cash earnings before tax	**367**	351	443	4.6	(17.2)
Income tax expense	**(110)**	(122)	(136)	9.8	19.1
Cash earnings before significant items	**257**	229	307	12.2	(16.3)
	£m	**£m**	**£m**	**%**	**%**
Pounds sterling					
Net interest income	**374**	341	400	9.7	(6.5)
Other operating income	**250**	264	253	(5.3)	(1.2)
Total income	**624**	605	653	3.1	(4.4)
Operating expenses	**(405)**	(406)	(435)	0.2	6.9

Underlying profit	**219**	199	218	10.1	0.5
Charge to provide for doubtful debts	**(65)**	(53)	(37)	(22.6)	(75.7)
Cash earnings before tax	**154**	146	181	5.5	(14.9)
Income tax expense	**(46)**	(51)	(56)	9.8	17.9
Cash earnings before significant items	**108**	95	125	13.7	(13.6)

Management Discussion & Analysis Total New Zealand

TOTAL NEW ZEALAND

Financial performance highlights

New Zealand s underlying cash earnings growth (after adjustment for AIFRS impacts) has been driven by solid volume and disciplined margin growth whilst keeping costs flat in a slowing but an intensively competitive New Zealand banking environment. A continued focus on offering customers the best products coupled with superior service continues to position New Zealand to deliver stable and sustainable growth.

Key developments

A relentless focus on improving customer service has seen the Bank of New Zealand awarded the best customer service for a contact centre over 50 seats across all industries in New Zealand for two consecutive years. This outstanding achievement has been supported by leading branch satisfaction scores.

Divestment of BNZ s Investment Management business on 31 January 2006.

Successful diversification of balance sheet funding options via the establishment of BNZ International Funding Limited (London branch), under the NAB Group $US30 billion global medium term programme.

Performance Summary

		Half Year to		Fav/(Unfav) Change on	
	Mar 06 $m	**Sep 05 $m**	**Mar 05 $m**	**Sep 05 %**	**Mar 05 %**
Australian dollars					
Net interest income	**401**	372	367	7.8	9.3
Other operating income	**249**	276	276	(9.8)	(9.8)
Total income	**650**	648	643	0.3	1.1
Operating expenses	**(381)**	(380)	(405)	(0.3)	5.9
Underlying profit	**269**	268	238	0.4	13.0
Charge to provide for doubtful debts	**(22)**	(26)	(12)	15.4	(83.3)
Cash earnings before tax	**247**	242	226	2.1	9.3
Income tax expense	**(80)**	(78)	(73)	(2.6)	(9.6)

Cash earnings before significant items	**167**	164	153	1.8	9.2
	NZ$m	**NZ$m**	**NZ$m**	**%**	**%**
New Zealand dollars					
Net interest income	**438**	405	397	8.1	10.3
Other operating income	**273**	299	299	(8.7)	(8.7)
Total income	**711**	704	696	1.0	2.2
Operating expenses	**(415)**	(412)	(439)	(0.7)	5.5
Underlying profit	**296**	292	257	1.4	15.2
Charge to provide for doubtful debts	**(25)**	(28)	(13)	10.7	(92.3)
Cash earnings before tax	**271**	264	244	2.7	11.1
Income tax expense	**(88)**	(84)	(80)	(4.8)	(10.0)
Cash earnings before significant items	**183**	180	164	1.7	11.6

Key Performance Measures

	Mar 06	Half Year to Sep 05	Mar 05	Fav/(Unfav) Change on Sep 05 %	Mar 05 %
Performance & profitability					
Return on average assets (annualised)	**1.02%**	1.07%	1.07%		
Cost to income ratio	**55.5%**	55.0%	59.8%		
Cash earnings per average FTE (annualised) (NZ$ 000)	**79**	78	73		
Net interest income					
Net interest margin (1)	2.55%	2.49%	2.68%		
Net interest spread (1)	2.30%	2.22%	2.42%		
Average balance sheet (NZ$bn)					
Gross loans and acceptances	**33.7**	31.6	29.2	6.6	15.4
Interest-earning assets	**34.4**	32.4	29.8	6.2	15.4
Retail deposits	**18.8**	18.1	17.4	3.9	8.0

(1) Net interest margins and spreads have been restated for September 2005 half year and March 2005 half year to include only interest bearing assets and liabilities.

	Mar 06	As at Sep 05	Mar 05
Full-time equivalent employees (FTE)	**4,628**	4,645	4,549