

# HALF YEAR RESULTS 2018



National  
Australia  
Bank

## **Incorporating the requirements of Appendix 4D**

The half year results announcement incorporates the half year report given to the Australian Securities Exchange (ASX) under Listing Rule 4.2A.

The half year consolidated report is to be read in conjunction with the Annual Financial Report 2017.

“My patients weren’t liking the shoes out there. That’s when I decided to design my own range.”

**Caroline McCulloch**  
FRANKiE4 Footwear  
Brisbane, QLD  
NAB customer

## Results for announcement to the market

Report for the half year ended 31 March 2018

						<b>31 March 2018</b>
						<b>\$m</b>
Revenue from ordinary activities <sup>(1)</sup>	page 55	up	11.4%	*	to	9,624
Net profit after tax from ordinary activities attributable to owners of NAB	page 55	up	1.5%	*	to	2,583
Net profit attributable to owners of NAB	page 55	up	1.5%	*	to	2,583

\* On prior corresponding period (six months ended 31 March 2017).

<b>Dividends</b>	<b>Amount per share cents</b>	<b>Franked amount per share %</b>
Interim dividend	99	100
Record date for determining entitlements to the interim dividend		16 May 2018

A Glossary of Terms is included in Section 7.

A reference in this Appendix 4D to the 'Group' is a reference to NAB and its controlled entities. All currency amounts are expressed in Australian dollars unless otherwise stated. References in this document to the March 2018 half year are references to the six months ended 31 March 2018. Other six month periods are referred to in a corresponding manner. The Group's consolidated financial statements, prepared in accordance with the *Corporations Act 2001* (Cth), are included in Section 5. See page 97 for a complete index of ASX Appendix 4D requirements.

<sup>(1)</sup> Required to be disclosed by ASX Listing Rule 4D. Reported as the sum of the following from the Group's consolidated income statement: Net interest income \$6,766 million and total other income \$2,858 million. On a cash earnings basis revenue increased by 2.5%. Refer to information on cash earnings on page 2 of Section 1, of the 2018 half year results.

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**Caroline McCulloch**  
FRANKiE4 Footwear  
Brisbane, QLD

## 1H18 FINANCIAL HIGHLIGHTS

**\$2,583M**

Statutory net profit

**\$3,289M**

Cash earnings (excluding restructuring-related costs)<sup>1</sup>  
Down 0.2% v 1H17

**99CPS**

Interim dividend  
100% franked

**10.21%**

Group Common Equity  
Tier 1 (CET1) ratio

**\$2.7BN**

Dividends declared

Returned 81% of cash earnings (ex restructuring-related costs)<sup>1</sup> to over 583,000 shareholders, 96% of whom are Australians



We have delivered a solid 1H18 result as we manage NAB for today while transforming for the future. Compared with 1H17, cash earnings are broadly stable, excluding previously announced restructuring-related costs, and revenue is up with margins higher. Our business has strong fundamentals including asset quality and balance sheet metrics.

Our SME franchise continues to deliver good growth as we strive to be the Best Business Bank for Australian businesses.

We are mobilising and executing the acceleration of our plan announced last November to deliver on targets including more than \$1 billion in cost savings and an estimated \$1.5 billion in additional investment by FY20<sup>2</sup> to improve the experience for our customers.

Consistent with this plan and a focus on our core strengths in banking, we are moving to a simpler wealth offering through JBWere and nabtrade. We intend to exit our other wealth management businesses including MLC.

We continue to learn from our mistakes and respond by making changes to be better for customers. The commitment of our people to doing the right thing is unwavering and together we are working to restore trust and respect in our industry, during and after the Royal Commission.

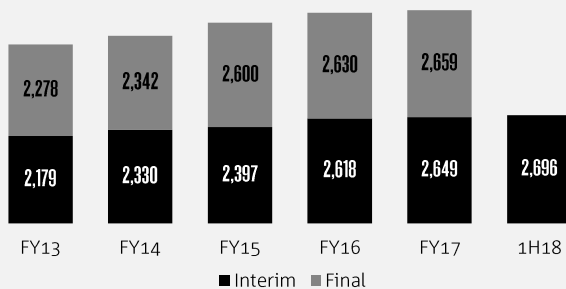


**ANDREW THORBURN**  
NAB CEO

## DELIVERING FOR OUR SHAREHOLDERS

### DIVIDENDS DECLARED (\$ MILLIONS)

*In respect of each financial year period*



## BACKING OUR CUSTOMERS & THE COMMUNITY IN 1H18

- Priority Segments Net Promoter Score (NPS)<sup>3</sup> for March 2018 is up 3 points to -9 compared to September 2017 levels and is first of the major banks
- National launch of Speckle in partnership with Good Shepherd Microfinance providing online small cash loans at about half the cost of similar lenders
- Making sustainable investments more accessible with the launch of Australia's first green Residential Mortgage-Backed Security
- Expanding our Xero partnership for business customers including enabling payment instructions from Xero to NAB accounts

<sup>1</sup> Refer note on cash earnings on page 7 and reconciliation on page 6. Cash earnings including restructuring-related charges are \$2,759 million, down 16.2% versus 1H17.  
<sup>2</sup> Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7.

<sup>3</sup> Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Priority Segments Net Promoter Score (NPS) is a simple average of the NPS scores of four priority segments: NAB defined Home Owners (Home Loan @ Bank) and Investors, as well as Small Business (\$0.1m-<\$5m) and Medium Business (\$5m-<\$50m). The Priority Segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research.

# NAB 2018 HALF YEAR RESULTS

The March 2018 half year results are compared with the March 2017 half year results for continuing operations unless otherwise stated, and reflect revisions to prior comparative financial information as detailed in NAB's ASX announcements on 20 April 2017. Operating Performance and Asset Quality are expressed on a cash earnings basis.

## OPERATING PERFORMANCE 1H18 V 1H17

- Revenue up 2.5% with growth in housing and business lending combined with higher margins, partly offset by lower Markets & Treasury<sup>4</sup> income.
- Net Interest Margin up 5 basis points (bps), reflecting repricing and lower funding costs, partly offset by the impact of the bank levy and housing lending competition and product mix changes.
- Expenses up 25.3%, or 5.4% excluding restructuring-related costs, mainly due to increased investment spend.

### 1H18 V 1H17 DRIVERS OF CASH EARNINGS CHANGE<sup>5</sup>



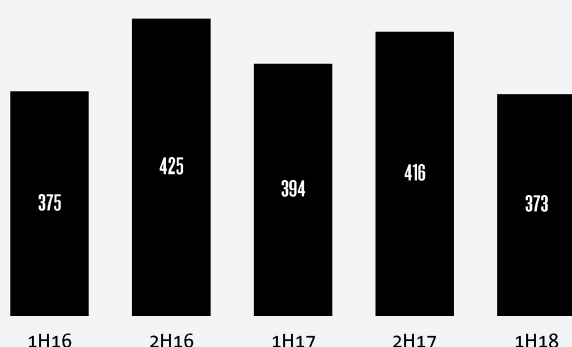
**“Our commitment to reshape and simplify our business has seen an increase in 1H18 expenses with additional investment focused on improving customer experience and delivering the new payments platform.**

**We continue to expect expenses to grow 5-8% in FY18 then targeted to remain broadly flat over FY19-20<sup>6</sup>.”**

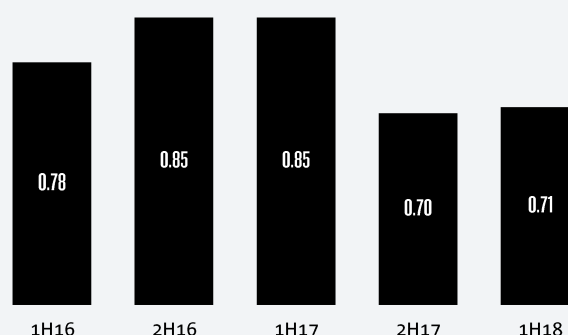
## ASSET QUALITY 1H18 V 1H17

- Credit impairment charges declined 5.3% to \$373 million, and as a percentage of gross loans and acceptances declined 1bp to 13bps.
- Lower 1H18 charges reflect a decline in individually impaired exposures, partially offset by higher collective provisions including \$71 million for additional forward looking adjustments for targeted sectors experiencing elevated levels of risk.
- Asset quality improved with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances down 14bps to 0.71% benefitting from improved conditions for New Zealand dairy customers and successful work-out strategies across the Australian business lending portfolio.

### CREDIT IMPAIRMENT CHARGES (\$ MILLIONS)



### 90+ DPD & GIAS/GLAS (%)



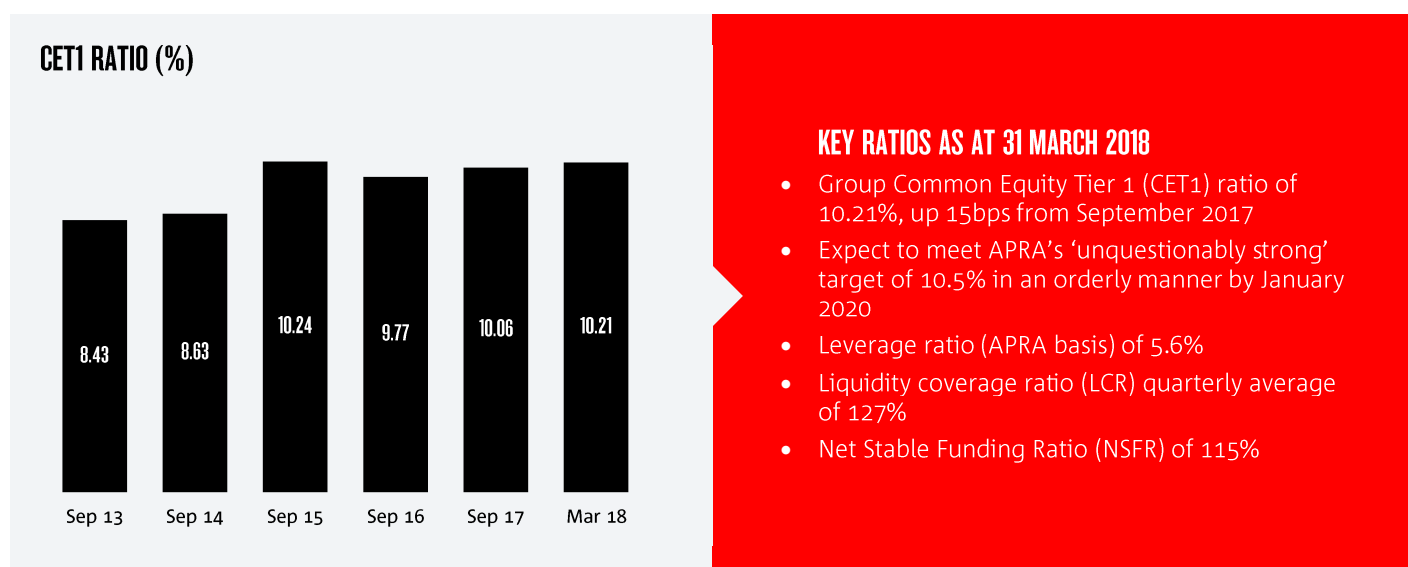
**“Asset quality is a highlight again, benefitting from favourable economic conditions and prudent risk settings. Collective provision forward looking adjustments for targeted sectors were increased over 1H18 and now stand at \$522 million.”**

<sup>4</sup> Markets and Treasury income represents Customer Risk Management and NAB Risk Management income.

<sup>5</sup> Excluding \$755 million of restructuring-related costs. Underlying profit represents cash earnings before credit impairment charges, income tax and distributions. Refer note on cash earnings and reconciliation on page 6.

<sup>6</sup> Excluding 1H18 restructuring-related costs and large one-off expenses. Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7.

## CAPITAL, FUNDING & LIQUIDITY



## DIVISIONAL PERFORMANCE – CASH EARNINGS

	1H18 (\$M)	% CHANGE 1H18 V 1H17	HIGHLIGHTS 1H18 V 1H17
Business & Private Banking	1,482	8.3	Strong revenue performance reflecting good business lending growth and increased margins, combined with continued improvement in asset quality
Consumer Banking & Wealth	804	5.2	A solid result with higher margins and growth in housing lending in line with system, combined with lower credit impairment charges
Corporate & Institutional Banking	778	(1.6)	A slightly lower result with softer Markets related income and sale of the Private Wealth business in Asia offsetting strong non-Markets revenue performance given continued focus on high returning Infrastructure and Financial Institutions sectors
New Zealand Banking (NZ\$M)	494	8.6	A strong result with higher margins and lending growth benefitting from good performance across the Auckland housing and SME sectors



## STRATEGIC OVERVIEW<sup>7</sup>

The acceleration of our strategy announced with the Group's 2017 Full Year Results, including an estimated additional \$1.5 billion investment over three years, is now well underway. We are improving the experience of our customers, reshaping our workforce and growing our bank in an environment of rapid technological and regulatory change. This is an ambitious and necessary plan so we can continue to deliver for all our stakeholders, live our purpose to 'back the bold who move Australia forward' and achieve our vision to be Australia and New Zealand's most respected bank.

Customers are already benefitting from faster and better outcomes. Transaction account on-boarding in less than 30 minutes is now possible for simple business accounts, and for NAB's personal customers the time taken to open an Everyday Banking account has reduced from up to 48 hours to less than 7 minutes. More of our business customers have access to simple and fast lending via Quickbiz, NAB's digital offer for small business unsecured lending. Quickbiz now accounts for a third of new small business lending accounts<sup>8</sup>, up from 20% in September 2017, and during 1H18 we increased the Quickbiz lending limit to \$100k from \$50k and extended its offering to include equipment finance.

We have made good progress reshaping our workforce to have the right people with the right skills for the future. We have reduced management layers between the CEO and frontline employees to be closer to our customers and make quicker, better decisions for them. Around 1,050 FTE employees had left NAB by the end of April, against our target of 6,000 by the end of FY20. To help people transition to new careers outside NAB, we are investing around \$50 million in 'The Bridge', with 440 people currently using or having used its career and wellbeing services. During 1H18 we hired 93 new FTE employees as we build towards our target of 2,000 additional roles, and established NAB Cloud Guild with Amazon Web Services to build cloud computing skills for more than 2,000 NAB employees.

We are increasing investment in Greater Western Sydney and Greater Melbourne, where the population is forecast to grow by 0.9 million over the next 5 years<sup>9</sup>. To service these growth corridors, during 1H18 we relocated or added more than 25 bankers, opened on Saturdays in key locations, and have more than 25 new or refreshed points of presence planned over the next three years.

Global infrastructure financing, especially in the Asian region, represents another significant growth opportunity given NAB's top 15 global position<sup>10</sup> in Infrastructure and Energy financing. Over 1H18 we completed 27 deals with total project debt of over \$16 billion across the US, Europe, Asia and Australia. The majority of these were with existing customers in wind, solar, rail and ports, and NAB took a leading role distributing these deals to a diverse mix of institutional and retail investors.

As a result of the accelerated investment, we continue to expect FY18 expenses to grow 5-8%, with expenses then targeted to remain broadly flat over FY19-20 (excluding 1H18 restructuring-related costs and large one-off expenses). The Board also continues to expect the FY18 final dividend will be maintained at the same level as FY17, subject to no material change in the external environment and satisfactory Group financial performance.

We are operating in an environment of constant change, and heightened political and regulatory scrutiny. As we continue to participate fully in the Financial Services Royal Commission, we are very mindful of expectations the community places on us. We will keep listening to our customers to understand how we can improve and build a better bank for them.

### Reshaping of Wealth Management

Today we are announcing changes to our wealth management strategy, consistent with our plan to become simpler, faster and focused on core banking. A detailed review, conducted over nine months, determined we could best serve the needs of our customers and deliver long term value for our shareholders by retaining and investing in a more focussed wealth offering. This involves JBWere, part of our leading Business and Private Banking franchise, helping high net worth customers manage their personal wealth alongside their business interests, combined with nabtrade, our fast growing online investing platform, supporting self-directed customers.

We intend to exit our Advice, Platform & Superannuation and Asset Management businesses, currently operating under MLC and other brands. Independent ownership will allow for this business to determine its own strategy and investment priorities to better deliver for customers and enhance its competitive position. We are targeting separation by the end of 2019 calendar year via public markets options including demerger and IPO, while maintaining flexibility to consider trade sale options. It is expected there will be ongoing arrangements between NAB and MLC, to offer NAB customers continued access to advice and products to meet their wealth management needs.

Any potential changes are subject to market conditions and required approvals including Board and regulatory.

## KEY LONG TERM OBJECTIVES<sup>7</sup>

NPS	COST TO INCOME RATIO	ROE	EMPLOYEE ENGAGEMENT
Positive and #1 of Australian major banks for our priority segments	Towards 35%	#1 of Australian major banks	Top quartile

<sup>7</sup> Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7

<sup>8</sup> New QuickBiz loan and QuickBiz overdraft accounts as a percentage of total new term lending and overdraft accounts in the Small Business division

<sup>9</sup> Melbourne: "Victoria In Future 2016", Dept of Environment, Land, Water and Planning, Sydney: "2016 New South Wales State and Local Government Area Population Projections", NSW Govt - Planning & Environment

<sup>10</sup> IJGlobal League Tables (2017)

## NAB'S ROLE IN THE COMMUNITY

### NAB REVENUE

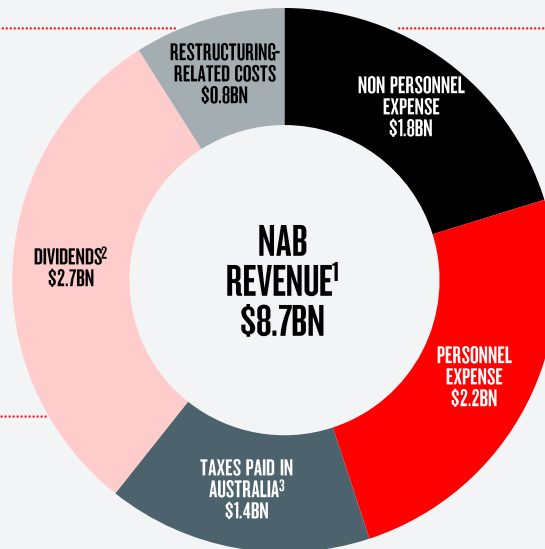
- Supports all stakeholders and business partners
- NAB revenue is shown after interest payments to 4.7 million Australian and New Zealand retail and business deposit customers who have deposited over \$395 billion with us

### RESTRUCTURING-RELATED COSTS

- Costs in relation to the acceleration of the Group's strategy

### SHAREHOLDERS (INC. SUPER FUNDS)

- Over 583,000 shareholders
- 97% in Australia and New Zealand



### SUPPLIERS & COMMUNITY

- +1,900 supplier agreements
- +15,000 microfinance loans provided
- Carbon neutral since 2010, 75% of Australian key office buildings<sup>5</sup> are Green Star Rated

### OUR PEOPLE

- Employ 33,944 people<sup>6</sup>
- Over 50% of our workforce directly engages with customers
- Focused on building the talent and capability to move NAB forward

### GOVERNMENT

- Australia's third largest income tax payer<sup>4</sup>
- Signatory to the Voluntary Tax Transparency Code

#### Figures based on NAB's 1H18 cash earnings

1. Revenue shown net of \$0.4bn of credit impairment charges
2. Dividends declared in respect of 1H18
3. Includes income tax, GST, FBT, payroll tax and other taxes borne by NAB that were paid during the six months ended 31 March 2018
4. Based on ATO's "Report of Entity Tax Information" for the 2015-16 income year released on 7 December 2017
5. 'Key office buildings' are all NAB commercial tenancies over 4,000m<sup>2</sup>
6. Represents full time equivalent employees as at 31 March 2018 for NAB Group

## ECONOMIC OUTLOOK

**“The outlook for the Australian and New Zealand economies remains supportive of solid growth. In Australia, increased economic growth momentum is expected during 2018 benefitting from rising government infrastructure spending and LNG exports, combined with a continued upswing in non-mining business investment. While the consumer sector remains subdued and the housing cycle is slowing, expectations for continued strong population growth and low unemployment limit downside.”**

# NAB 2018 HALF YEAR RESULTS

## GROUP PERFORMANCE RESULTS<sup>11</sup>

Cash earnings is not a statutory financial measure, is not presented in accordance with Australian Accounting Standards, and is not audited or reviewed in accordance with Australian Auditing Standards. Full detail on how cash earnings is defined, a discussion of non-cash earnings items and a full reconciliation of statutory net profit attributable to owners of NAB for the half year ended 31 March 2018 is set out on pages 2 to 7 of the 2018 Half Year Results Announcement under the heading "Profit Reconciliation".

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Net interest income	6,750	6,773	6,393	(0.3)	5.6
Other operating income	2,343	2,253	2,476	4.0	(5.4)
<b>Net operating income</b>	<b>9,093</b>	<b>9,026</b>	<b>8,869</b>	<b>0.7</b>	<b>2.5</b>
Operating expenses (excluding restructuring-related costs)	(3,989)	(3,850)	(3,785)	3.6	5.4
Restructuring-related costs <sup>12</sup>	(755)	-	-	large	large
<b>Underlying profit</b>	<b>4,349</b>	<b>5,176</b>	<b>5,084</b>	<b>(16.0)</b>	<b>(14.5)</b>
Credit impairment charge	(373)	(416)	(394)	(10.3)	(5.3)
<b>Cash earnings before tax and distributions</b>	<b>3,976</b>	<b>4,760</b>	<b>4,690</b>	<b>(16.5)</b>	<b>(15.2)</b>
Income tax expense	(1,168)	(1,363)	(1,347)	(14.3)	(13.3)
<b>Cash earnings before distributions</b>	<b>2,808</b>	<b>3,397</b>	<b>3,343</b>	<b>(17.3)</b>	<b>(16.0)</b>
Distributions	(49)	(49)	(49)	-	-
<b>Cash earnings</b>	<b>2,759</b>	<b>3,348</b>	<b>3,294</b>	<b>(17.6)</b>	<b>(16.2)</b>
<b>Cash earnings (excluding restructuring-related costs)</b>	<b>3,289</b>	<b>3,348</b>	<b>3,294</b>	<b>(1.8)</b>	<b>(0.2)</b>
<i>Non-cash earnings items (after tax):</i>					
Distributions	49	49	49	-	-
Fair value and hedge ineffectiveness	81	(47)	(453)	large	large
Amortisation of acquired intangible assets	(15)	(29)	(33)	(48.3)	(54.5)
<b>Net profit from continuing operations</b>	<b>2,874</b>	<b>3,321</b>	<b>2,857</b>	<b>(13.5)</b>	<b>0.6</b>
<b>Net profit attributable to owners of NAB (excluding restructuring-related costs)</b>	<b>3,404</b>	<b>3,321</b>	<b>2,857</b>	<b>2.5</b>	<b>19.1</b>
Net loss after tax from discontinued operations <sup>13</sup>	(291)	(581)	(312)	(49.9)	(6.7)
<b>Net profit attributable to owners of NAB</b>	<b>2,583</b>	<b>2,740</b>	<b>2,545</b>	<b>(5.7)</b>	<b>1.5</b>
<b>Represented by:</b>					
Business and Private Banking	1,482	1,473	1,368	0.6	8.3
Consumer Banking and Wealth	804	869	764	(7.5)	5.2
Corporate and Institutional Banking	778	744	791	4.6	(1.6)
NZ Banking	452	453	429	(0.2)	5.4
Corporate Functions and Other (excluding restructuring-related costs)	(227)	(191)	(58)	18.8	large
Restructuring-related costs	(530)	-	-	large	large
<b>Cash earnings</b>	<b>2,759</b>	<b>3,348</b>	<b>3,294</b>	<b>(17.6)</b>	<b>(16.2)</b>

## Shareholder Summary

	Half Year to			Mar 18 v Sep 17	Mar 18 v Mar 17
	Mar 18	Sep 17	Mar 17		
<b>Group</b>					
Dividend per share (cents)	99	99	99	-	-
Dividend payout ratio	96.9%	78.9%	79.9%	large	large
Statutory earnings per share (cents) – basic	93.9	100.8	93.9	(6.9)	-
Statutory earnings per share (cents) – diluted	91.1	97.7	91.7	(6.6)	(0.6)
Statutory earnings per share from continuing operations (cents) – basic	104.7	122.5	105.6	(17.8)	(0.9)
Statutory earnings per share from continuing operations (cents) – diluted	101.0	117.9	102.6	(16.9)	(1.6)
Cash earnings per share (cents) – basic	102.2	125.4	123.9	(23.2)	(21.7)
Cash earnings per share (cents) – diluted	98.8	120.6	119.6	(21.8)	(20.8)
Statutory return on equity	10.5%	11.2%	10.6%	(70 bps)	(10 bps)
Cash return on equity (ROE)	11.4%	13.9%	14.0%	(250 bps)	(260 bps)
<b>Group (excluding restructuring-related costs)</b>					
Dividend payout ratio	81.2%	78.9%	79.9%	230 bps	130 bps
Statutory earnings per share (cents) – basic	113.5	100.8	93.9	12.7	19.6
Statutory earnings per share (cents) – diluted	109.2	97.7	91.7	11.5	17.5
Statutory earnings per share from continuing operations (cents) – basic	124.3	122.5	105.6	1.8	18.7
Statutory earnings per share from continuing operations (cents) – diluted	119.2	117.9	102.6	1.3	16.6
Cash earnings per share (cents) – basic	121.9	125.4	123.9	(3.5)	(2.0)
Cash earnings per share (cents) – diluted	117.0	120.6	119.6	(3.6)	(2.6)
Statutory return on equity	12.6%	11.2%	10.6%	140 bps	200 bps
Cash return on equity (ROE)	13.6%	13.9%	14.0%	(30 bps)	(40 bps)

<sup>11</sup> Information is presented on a continuing operations basis.

<sup>12</sup> Refer to NAB's 2018 Half Year Results Announcement Note 4 Operating Expenses for further detail.

<sup>13</sup> Refer to NAB's 2018 Half Year Results Announcement Note 15 Discontinued Operations for further detail.

## FOR FURTHER INFORMATION

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## DISCLAIMER – FORWARD LOOKING STATEMENTS

This announcement and the 2018 Half Year Results Announcement contain statements that are, or may be deemed to be, forward looking statements. These forward looking statements may be identified by the use of forward looking terminology, including the terms "believe", "estimate", "plan", "project", "anticipate", "expect", "target", "intend", "likely", "may", "will", "could" or "should" or, in each case, their negative or other variations or other similar expressions, or by discussions of strategy, plans, objectives, targets, goals, future events or intentions. Indications of, and guidance on, future earnings and financial position and performance are also forward looking statements. You are cautioned not to place undue reliance on such forward looking statements. Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements.

This announcement and the 2018 Half Year Results Announcement describe certain initiatives relating to the Group's strategic agenda ("Program"), including certain forward looking statements. These statements are subject to a number of risks, assumptions and qualifications, including: (1) detailed business plans have not been developed for the entirety of the Program, and the full scope and cost of the Program may vary as plans are developed and third parties engaged; (2) the Group's ability to execute and manage the Program in a sequenced, controlled and effective manner and in accordance with the relevant project and business plan (once developed); (3) the Group's ability to execute productivity initiatives and realise operational synergies, cost savings and revenue benefits in accordance with the Program plan (including, in relation to CTI and ROE targets, the extension of improvements beyond the current Program plan); (4) the Group's ability to meet its internal net FTE reduction targets; (5) the Group's ability to recruit and retain FTE and contractors with the requisite skills and experience to deliver Program initiatives; (6) there being no significant change in the Group's financial performance or operating environment, including the economic conditions in Australia and New Zealand, changes to financial markets and the Group's ability to raise funding and the cost of such funding, increased competition, changes in interest rates and changes in customer behaviour; (7) there being no material change to law or regulation or changes to regulatory policy or interpretation, including relating to the capital and liquidity requirements of the Group; (8) for the purpose of calculating FTE cost savings and redundancy costs, the Group has assumed an average FTE cost based on Group-wide averages, and such costs are not calculated by reference to specific productivity initiatives or individual employee entitlements; and (9) NAB's proposed divestment of its wealth management businesses (excluding JBWere and nabtrade) may have an impact on the timing, scope and cost of the Program, however the impact cannot be quantified at this time.

Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained in the Group's Luxembourg Transparency Law disclosures released to the ASX on 3 May 2018 and the Group's Annual Financial Report for the 2017 financial year, which is available at [www.nab.com.au](http://www.nab.com.au).

## NOTE ON CASH EARNINGS

Full detail on how cash earnings is defined, a discussion of non-cash earnings items and a full reconciliation of statutory net profit attributable to owners of NAB for the half year ended 31 March 2018 is set out on pages 2 to 7 of the 2018 Half Year Results Announcement under the heading "Profit Reconciliation".

The Group's results are presented on a cash earnings basis, unless otherwise stated. Cash earnings is a key financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. NAB also uses cash earnings for its internal management reporting, as it better reflects what NAB considers to be the underlying performance of the Group. It is not a statutory financial measure, is not presented in accordance with Australian Accounting Standards, and is not audited or reviewed in accordance with Australian Auditing Standards. "Cash earnings" is calculated by excluding discontinued operations and certain other items which are included within the statutory net profit attributable to owners of NAB. The Group's financial statements, prepared in accordance with the Corporations Act 2001 (Cth) and Australian Accounting Standards, and reviewed by the auditors in accordance with Australian Auditing Standards, are included in Section 5 of the 2018 Half Year Results Announcement.

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**Section 1**

**Profit Reconciliation**

Information about Cash Earnings and other Non-IFRS Measures

2

## Information about Cash Earnings and other Non-IFRS Measures

This section provides information about cash earnings, a key performance measure used by NAB, including information on how cash earnings is calculated and a reconciliation of cash earnings to net profit attributable to owners of NAB (statutory net profit). It also provides information about certain other key non-IFRS measures used by NAB disclosed in this document.

### Non-IFRS key financial performance measures used by the Group

Certain financial measures detailed in this Results Announcement are not accounting measures within the scope of IFRS. Management review these financial metrics in order to measure the Group's overall financial performance and position and believe the presentation of these industry standard financial measures provides useful information to analysts and investors regarding the results of the Group's operations and allows ready comparison with other industry participants. The Group regularly reviews the non-IFRS measures included in its reporting documents to ensure that only material financial measures are incorporated. Further information in relation to these financial measures is set out below and in the Glossary.

### Explanation and Definition of Cash Earnings

Cash earnings is a non-IFRS key financial performance measure used by NAB, the investment community and NAB's Australian peers with similar business portfolios. NAB also uses cash earnings for its internal management reporting as it better reflects what NAB considers to be the underlying performance of the Group. Cash earnings is calculated by excluding discontinued operations and certain other items which are included within the statutory net profit attributable to owners of NAB. Cash earnings does not purport to represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a cash flow statement. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards and is not audited or reviewed in accordance with Australian Auditing Standards.

Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the March 2018 half year has been adjusted for the following:

- Distributions.
- Fair value and hedge ineffectiveness.
- Amortisation of acquired intangible assets.

### Reconciliation to Statutory Net Profit

Section 5 of the 2018 Half Year Results Announcement contains the Group's income statement, including statutory net profit. The statutory net profit for the period is the sum of both net profit / (loss) from continuing operations and discontinued operations. Discontinued operations includes provisions for conduct costs pursuant to claims under the Conduct Indemnity Deed with CYBG. Further details are set out in *Note 15 Discontinued operations* on page 80. The Group's consolidated financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and applicable Australian Accounting Standards, and reviewed

by the auditors in accordance with Australian Auditing Standards, are included in the *Financial Report* section of the 2018 Half Year Results Announcement.

A reconciliation of cash earnings to statutory net profit attributable to owners of NAB (statutory net profit, less non-controlling interest in controlled entities) is set out on page 3, and full reconciliations between statutory net profit and cash earnings are included in this section on pages 5-7.

Page 4 contains a description of non-cash earnings items for March 2018.

### Average balances

Average balances (excluding risk-weighted assets, funds under management / funds under administration and assets under management) are generally based on daily statutory balances derived from the Group's general ledger. This methodology produces numbers that more accurately reflect seasonality, timing of material accruals (such as dividends) and restructures (including discontinued operations), which would otherwise not be reflected in a simple average.

Group Results <sup>(1)</sup>

The Group Results and Review of Divisional Operations and Results are presented on a cash earnings basis unless otherwise stated.

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Net interest income	6,750	6,773	6,393	(0.3)	5.6
Other operating income	2,343	2,253	2,476	4.0	(5.4)
<b>Net operating income</b>	<b>9,093</b>	<b>9,026</b>	<b>8,869</b>	<b>0.7</b>	<b>2.5</b>
Operating expenses <sup>(2)</sup>	(4,744)	(3,850)	(3,785)	23.2	25.3
<b>Underlying profit</b>	<b>4,349</b>	<b>5,176</b>	<b>5,084</b>	<b>(16.0)</b>	<b>(14.5)</b>
Credit impairment charge	(373)	(416)	(394)	(10.3)	(5.3)
<b>Cash earnings before tax and distributions</b>	<b>3,976</b>	<b>4,760</b>	<b>4,690</b>	<b>(16.5)</b>	<b>(15.2)</b>
Income tax expense	(1,168)	(1,363)	(1,347)	(14.3)	(13.3)
<b>Cash earnings before distributions</b>	<b>2,808</b>	<b>3,397</b>	<b>3,343</b>	<b>(17.3)</b>	<b>(16.0)</b>
Distributions	(49)	(49)	(49)	-	-
<b>Cash earnings</b>	<b>2,759</b>	<b>3,348</b>	<b>3,294</b>	<b>(17.6)</b>	<b>(16.2)</b>
<i>Non-cash earnings items (after tax):</i>					
Distributions	49	49	49	-	-
Fair value and hedge ineffectiveness	81	(47)	(453)	large	large
Amortisation of acquired intangible assets	(15)	(29)	(33)	(48.3)	(54.5)
<b>Net profit from continuing operations</b>	<b>2,874</b>	<b>3,321</b>	<b>2,857</b>	<b>(13.5)</b>	<b>0.6</b>
Net loss after tax from discontinued operations	(291)	(581)	(312)	(49.9)	(6.7)
<b>Net profit attributable to owners of NAB</b>	<b>2,583</b>	<b>2,740</b>	<b>2,545</b>	<b>(5.7)</b>	<b>1.5</b>

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> Includes \$755 million of restructuring-related costs. Refer to Note 4 Operating expenses for further information.



**Non-cash Earnings Items****Distributions**

Distributions relating to hybrid equity instruments are treated as an expense for cash earnings purposes and as a reduction in equity (dividend) for statutory reporting purposes. The distributions on other equity instruments are set out in Section 5, *Note 6 Dividends and distributions*. The effect of this in the March 2018 half year is to reduce cash earnings by \$49 million.

**Fair Value and Hedge Ineffectiveness**

Fair value and hedge ineffectiveness causes volatility in statutory profit, which is excluded from cash earnings as it is income neutral over the full term of transactions. This arises from fair value movements relating to trading derivatives held for risk management purposes; fair value movements relating to assets, liabilities and derivatives designated in hedge relationships; and fair value movements relating to assets and liabilities designated at fair value.

In the March 2018 half year there was an increase in statutory profit of \$97 million (\$81 million after tax) from fair value and hedge ineffectiveness. This was largely due to the mark-to-market gain from derivatives used to hedge the Group's long-term funding issuances and liquid assets, driven by favourable movements in interest rates, foreign exchange rates and cross currency spreads, and mark-to-market movements of assets and liabilities designated at fair value reflecting current market conditions.

**Amortisation of Acquired Intangible Assets**

The amortisation of acquired intangibles represents the amortisation of intangible assets arising from the acquisition of controlled entities and associates such as management agreements and contracts in force. In the March 2018 half year there was a decrease in statutory profit of \$17 million (\$15 million after tax) due to the amortisation of acquired intangible assets.

## Reconciliation between Statutory Net profit (after Tax) from Continuing Operations and Cash Earnings

Half Year ended 31 March 2018	Statutory Net Profit from continuing operations	Wealth adj. <sup>(1)</sup>	Distributions	Fair value and hedge ineffec.	Amortisation of acquired intangible assets	Cash Earnings
	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	6,766	(19)	-	3	-	6,750
Other operating income	2,858	(413)	-	(109)	7	2,343
Net operating income	9,624	(432)	-	(106)	7	9,093
Operating expenses <sup>(2)</sup>	(5,184)	430	-	-	10	(4,744)
Profit / (loss) before credit impairment charge	4,440	(2)	-	(106)	17	4,349
Credit impairment (charge) / write-back	(382)	-	-	9	-	(373)
Profit / (loss) before tax	4,058	(2)	-	(97)	17	3,976
Income tax (expense) / benefit	(1,182)	-	-	16	(2)	(1,168)
<b>Net profit / (loss) from continuing operations before distributions and non-controlling interest</b>	<b>2,876</b>	<b>(2)</b>	<b>-</b>	<b>(81)</b>	<b>15</b>	<b>2,808</b>
Net (loss) / profit attributable to non-controlling interest in controlled entities	(2)	2	-	-	-	-
Distributions	-	-	(49)	-	-	(49)
<b>Net profit attributable to owners of NAB from continuing operations</b>	<b>2,874</b>	<b>-</b>	<b>(49)</b>	<b>(81)</b>	<b>15</b>	<b>2,759</b>

<sup>(1)</sup> In the Wealth cash earnings view, volume related expenses are reclassified from operating expenses and net interest income to other operating income.

<sup>(2)</sup> Includes \$755 million of restructuring-related costs. Refer to Note 4 Operating expenses for further information.

## Reconciliation between Statutory Net profit (after Tax) from Continuing Operations and Cash Earnings (continued)

	Statutory Net Profit from continuing operations	Wealth adj. <sup>(1)</sup>	Distri- butions	Fair value and hedge ineffec.	Amortisation of acquired intangible assets	Cash Earnings
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Half Year ended 30 September 2017</b>						
Net interest income	6,785	(21)	-	9	-	6,773
Other operating income	2,600	(388)	-	35	6	2,253
Net operating income	9,385	(409)	-	44	6	9,026
Operating expenses	(4,283)	407	-	-	26	(3,850)
Profit / (loss) before credit impairment charge	5,102	(2)	-	44	32	5,176
Credit impairment (charge) / write-back	(425)	-	-	9	-	(416)
Profit / (loss) before tax	4,677	(2)	-	53	32	4,760
Income tax (expense) / benefit	(1,354)	-	-	(6)	(3)	(1,363)
<b>Net profit / (loss) from continuing operations before distributions and non-controlling interest</b>	<b>3,323</b>	<b>(2)</b>	<b>-</b>	<b>47</b>	<b>29</b>	<b>3,397</b>
Net (loss) / profit attributable to non-controlling interest in controlled entities	(2)	2	-	-	-	-
Distributions	-	-	(49)	-	-	(49)
<b>Net profit / (loss) attributable to owners of NAB from continuing operations</b>	<b>3,321</b>	<b>-</b>	<b>(49)</b>	<b>47</b>	<b>29</b>	<b>3,348</b>

<sup>(1)</sup> In the Wealth cash earnings view, volume related expenses are reclassified from operating expenses and net interest income to other operating income.

## Reconciliation between Statutory Net profit (after Tax) from Continuing Operations and Cash Earnings (continued)

	Statutory Net Profit from continuing operations	Wealth adj. <sup>(1)</sup>	Distri- butions	Fair value and hedge ineffec.	Amortisation of acquired intangible assets	Cash Earnings
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Half Year ended 31 March 2017</b>						
Net interest income	6,397	(16)	-	12	-	6,393
Other operating income	2,242	(429)	-	657	6	2,476
Net operating income	8,639	(445)	-	669	6	8,869
Operating expenses	(4,256)	442	-	-	29	(3,785)
Profit / (loss) before credit impairment charge	4,383	(3)	-	669	35	5,084
Credit impairment (charge) / write-back	(399)	-	-	5	-	(394)
Profit / (loss) before tax	3,984	(3)	-	674	35	4,690
Income tax (expense) / benefit	(1,126)	2	-	(221)	(2)	(1,347)
<b>Net profit / (loss) from continuing operations before distributions and non-controlling interest</b>	<b>2,858</b>	<b>(1)</b>	<b>-</b>	<b>453</b>	<b>33</b>	<b>3,343</b>
Net (loss) / profit attributable to non-controlling interest in controlled entities	(1)	1	-	-	-	-
Distributions	-	-	(49)	-	-	(49)
<b>Net profit / (loss) attributable to owners of NAB from continuing operations</b>	<b>2,857</b>	<b>-</b>	<b>(49)</b>	<b>453</b>	<b>33</b>	<b>3,294</b>

<sup>(1)</sup> In the Wealth cash earnings view, volume related expenses are reclassified from operating expenses and net interest income to other operating income.

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**Section 2**

**Highlights**

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Group Performance Results <sup>(1)</sup>

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Net interest income	6,750	6,773	6,393	(0.3)	5.6
Other operating income	2,343	2,253	2,476	4.0	(5.4)
<b>Net operating income</b>	<b>9,093</b>	<b>9,026</b>	<b>8,869</b>	<b>0.7</b>	<b>2.5</b>
Operating expenses (excluding restructuring-related costs)	(3,989)	(3,850)	(3,785)	3.6	5.4
Restructuring-related costs <sup>(2)</sup>	(755)	-	-	large	large
<b>Underlying profit</b>	<b>4,349</b>	<b>5,176</b>	<b>5,084</b>	<b>(16.0)</b>	<b>(14.5)</b>
Credit impairment charge	(373)	(416)	(394)	(10.3)	(5.3)
<b>Cash earnings before tax and distributions</b>	<b>3,976</b>	<b>4,760</b>	<b>4,690</b>	<b>(16.5)</b>	<b>(15.2)</b>
Income tax expense	(1,168)	(1,363)	(1,347)	(14.3)	(13.3)
<b>Cash earnings before distributions</b>	<b>2,808</b>	<b>3,397</b>	<b>3,343</b>	<b>(17.3)</b>	<b>(16.0)</b>
Distributions	(49)	(49)	(49)	-	-
<b>Cash earnings</b>	<b>2,759</b>	<b>3,348</b>	<b>3,294</b>	<b>(17.6)</b>	<b>(16.2)</b>
<b>Cash earnings (excluding restructuring-related costs)</b>	<b>3,289</b>	<b>3,348</b>	<b>3,294</b>	<b>(1.8)</b>	<b>(0.2)</b>
<i>Non-cash earnings items (after tax):</i>					
Distributions	49	49	49	-	-
Fair value and hedge ineffectiveness	81	(47)	(453)	large	large
Amortisation of acquired intangible assets	(15)	(29)	(33)	(48.3)	(54.5)
<b>Net profit from continuing operations</b>	<b>2,874</b>	<b>3,321</b>	<b>2,857</b>	<b>(13.5)</b>	<b>0.6</b>
<b>Net profit attributable to owners of NAB from continuing operations (excluding restructuring-related costs)</b>	<b>3,404</b>	<b>3,321</b>	<b>2,857</b>	<b>2.5</b>	<b>19.1</b>
Net loss after tax from discontinued operations	(291)	(581)	(312)	(49.9)	(6.7)
<b>Net profit attributable to owners of NAB</b>	<b>2,583</b>	<b>2,740</b>	<b>2,545</b>	<b>(5.7)</b>	<b>1.5</b>
<b>Represented by:</b>					
Business and Private Banking	1,482	1,473	1,368	0.6	8.3
Consumer Banking and Wealth	804	869	764	(7.5)	5.2
Corporate and Institutional Banking	778	744	791	4.6	(1.6)
New Zealand Banking	452	453	429	(0.2)	5.4
Corporate Functions and Other (excluding restructuring-related costs)	(227)	(191)	(58)	18.8	large
Restructuring-related costs	(530)	-	-	large	large
<b>Cash earnings</b>	<b>2,759</b>	<b>3,348</b>	<b>3,294</b>	<b>(17.6)</b>	<b>(16.2)</b>

## Shareholder Summary

	Half Year to			Mar 18 v Sep 17	Mar 18 v Mar 17
	Mar 18	Sep 17	Mar 17		
<b>Group</b>					
Dividend per share (cents)	99	99	99	-	-
Dividend payout ratio	96.9%	78.9%	79.9%	large	large
Statutory earnings per share (cents) - basic	93.9	100.8	93.9	(6.9)	-
Statutory earnings per share (cents) - diluted	91.1	97.7	91.7	(6.6)	(0.6)
Statutory earnings per share from continuing operations (cents) - basic	104.7	122.5	105.6	(17.8)	(0.9)
Statutory earnings per share from continuing operations (cents) - diluted	101.0	117.9	102.6	(16.9)	(1.6)
Cash earnings per share (cents) - basic	102.2	125.4	123.9	(23.2)	(21.7)
Cash earnings per share (cents) - diluted	98.8	120.6	119.6	(21.8)	(20.8)
Statutory return on equity	10.5%	11.2%	10.6%	(70 bps)	(10 bps)
Cash return on equity (ROE)	11.4%	13.9%	14.0%	(250 bps)	(260 bps)
<b>Group (excluding restructuring-related costs)</b>					
Dividend payout ratio	81.2%	78.9%	79.9%	230 bps	130 bps
Statutory earnings per share (cents) - basic	113.5	100.8	93.9	12.7	19.6
Statutory earnings per share (cents) - diluted	109.2	97.7	91.7	11.5	17.5
Statutory earnings per share from continuing operations (cents) - basic	124.3	122.5	105.6	1.8	18.7
Statutory earnings per share from continuing operations (cents) - diluted	119.2	117.9	102.6	1.3	16.6
Cash earnings per share (cents) - basic	121.9	125.4	123.9	(3.5)	(2.0)
Cash earnings per share (cents) - diluted	117.0	120.6	119.6	(3.6)	(2.6)
Statutory return on equity	12.6%	11.2%	10.6%	140 bps	200 bps
Cash return on equity (ROE)	13.6%	13.9%	14.0%	(30 bps)	(40 bps)

<sup>(1)</sup> Information is presented on a continuing operations basis.<sup>(2)</sup> Refer to Note 4 Operating expenses for further information.

Key Performance Indicators

	Half Year to			Mar 18 v Sep 17	Mar 18 v Mar 17
	Mar 18	Sep 17	Mar 17		
<b>Group<sup>(1)</sup></b>					
Cash earnings on average assets	0.69%	0.83%	0.83%	(14 bps)	(14 bps)
Cash earnings on average risk-weighted assets	1.45%	1.76%	1.72%	(31 bps)	(27 bps)
Cash earnings per average FTE (\$'000)	163	200	194	(18.2%)	(16.0%)
Jaws	(22.5%)	0.1%	(1.1%)	large	large
Cost to income (CTI) ratio	52.2%	42.7%	42.7%	950 bps	950 bps
Net interest margin	1.87%	1.88%	1.82%	(1 bp)	5 bps
<b>Group (excluding restructuring-related costs)</b>					
Cash earnings on average assets	0.82%	0.83%	0.83%	(1 bp)	(1 bp)
Cash earnings on average risk-weighted assets	1.73%	1.76%	1.72%	(3 bps)	1 bp
Cash earnings per average FTE (\$'000)	195	200	194	(2.5%)	0.1%
Jaws	(2.9%)	0.1%	(1.1%)	(300 bps)	(180 bps)
Cost to income (CTI) ratio	43.9%	42.7%	42.7%	120 bps	120 bps
<b>Capital</b>					
Common Equity Tier 1 ratio	10.21%	10.06%	10.11%	15 bps	10 bps
Tier 1 ratio	12.40%	12.41%	12.51%	(1 bp)	(11 bps)
Total capital ratio	14.43%	14.58%	14.71%	(15 bps)	(28 bps)
Risk-weighted assets (\$bn)	387.4	382.1	374.5	1.4%	3.5%
<b>Volumes (\$bn)</b>					
Gross loans and acceptances <sup>(2)</sup>	571.2	565.1	550.0	1.1%	3.9%
Average interest earning assets	725.1	718.2	704.3	1.0%	2.9%
Total average assets	807.3	802.4	795.2	0.6%	1.5%
Total customer deposits	408.4	407.6	399.6	0.2%	2.2%
<b>Asset quality</b>					
90+ days past due and gross impaired assets to gross loans and acceptances	0.71%	0.70%	0.85%	1 bp	(14 bps)
Collective provision to credit risk-weighted assets	0.89%	0.86%	0.85%	3 bps	4 bps
Specific provision to gross impaired assets <sup>(3)</sup>	46.3%	45.5%	44.9%	80 bps	140 bps
<b>Other</b>					
Funds under management and administration (FUM/A) (spot) (\$bn) <sup>(4)</sup>	139.5	133.8	129.8	4.3%	7.5%
Assets under management (AUM) (spot) (\$bn) <sup>(4)</sup>	199.3	195.3	194.2	2.1%	2.7%
Full Time Equivalent Employees (FTE) (spot)	33,944	33,422	33,552	1.6%	1.2%
Full Time Equivalent Employees (FTE) (average)	33,904	33,464	34,001	1.3%	(0.3%)

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> Including loans and advances at fair value.

<sup>(3)</sup> Consists only of impaired assets where a specific provision has been raised and excludes \$76 million (NZ\$81 million), (September 2017: \$205 million (NZ\$222 million), March 2017: \$726 million (NZ\$795 million)) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

<sup>(4)</sup> In September 2017, the March 2017 comparative information was restated to present FUM/A and AUM in to two separate disclosures that represent all managed funds and assets from which the Group derives revenue. Certain items will be represented in both FUM/A and AUM meaning the two should not be summed.



Divisional Key Performance Indicators

	Half Year to			Mar 18 v Sep 17	Mar 18 v Mar 17
	Mar 18	Sep 17	Mar 17		
<b>Business and Private Banking</b>					
Net operating income (\$m)	3,288	3,229	3,090	1.8%	6.4%
Cash earnings (\$m)	1,482	1,473	1,368	0.6%	8.3%
Cash earnings on average assets	1.53%	1.53%	1.46%	-	7 bps
Cash earnings on average risk-weighted assets	2.64%	2.62%	2.45%	2 bps	19 bps
Net interest margin	2.97%	2.91%	2.84%	6 bps	13 bps
Cost to income ratio	33.2%	32.4%	33.6%	80 bps	(40 bps)
<b>Consumer Banking and Wealth</b>					
Net operating income (\$m)	2,784	2,789	2,692	(0.2%)	3.4%
Cash earnings (\$m)	804	869	764	(7.5%)	5.2%
Cash earnings on average assets (Consumer Banking)	0.74%	0.83%	0.75%	(9 bps)	(1 bp)
Cash earnings on average risk-weighted assets (Consumer Banking)	1.78%	2.06%	1.92%	(28 bps)	(14 bps)
Net interest margin (Consumer Banking)	2.06%	2.10%	2.03%	(4 bps)	3 bps
Cost to income ratio (Consumer Banking)	52.30%	49.70%	51.20%	260 bps	110 bps
Investment income to average FUM/A (bps) (Wealth)	59	61	62	(2 bps)	(3 bps)
Investment income to average AUM (bps) (Wealth)	14	15	17	(1 bp)	(3 bps)
Cost to income ratio (Wealth)	63.0%	61.7%	67.5%	130 bps	(450 bps)
<b>Corporate and Institutional Banking</b>					
Net operating income (\$m)	1,683	1,626	1,714	3.5%	(1.8%)
Cash earnings (\$m)	778	744	791	4.6%	(1.6%)
Cash earnings on average assets	0.58%	0.53%	0.58%	5 bps	-
Cash earnings on average risk-weighted assets	1.36%	1.30%	1.30%	6 bps	6 bps
Net interest margin	0.79%	0.84%	0.81%	(5 bps)	(2 bps)
Net interest margin (ex markets)	1.64%	1.58%	1.53%	6 bps	11 bps
Cost to income ratio	37.8%	37.2%	36.8%	60 bps	100 bps
<b>New Zealand Banking</b>					
Net operating income (NZ\$m)	1,192	1,154	1,103	3.3%	8.1%
Cash earnings (NZ\$m)	494	486	455	1.6%	8.6%
Cash earnings on average assets	1.19%	1.20%	1.16%	(1 bp)	3 bps
Cash earnings on average risk-weighted assets	1.71%	1.68%	1.59%	3 bps	12 bps
Net interest margin	2.24%	2.21%	2.15%	3 bps	9 bps
Cost to income ratio	39.0%	38.9%	39.3%	10 bps	(30 bps)

## Group Performance and Strategic Highlights

Andrew Thorburn

### Group Performance Summary

Net profit attributable to owners of NAB (statutory net profit) for the March 2018 half year was \$2,583 million, a decrease of \$157 million or 5.7% compared to the September 2017 half year and an increase of \$38 million or 1.5% compared to the March 2017 half year.

Excluding the impact of discontinued operations, net profit attributable to owners of NAB (statutory net profit) decreased by \$447 million or 13.5% against September 2017 and increased \$17 million or 0.6% against the March 2017 half year. Discontinued operations reflect losses relating to provisions for conduct costs pursuant to claims under the Conduct Indemnity Deed with CYBG.

Net interest income increased by \$357 million or 5.6% compared to the March 2017 half year. The increase was driven by growth in housing and business lending volumes, combined with a higher net interest margin.

Other operating income decreased by \$133 million or 5.4% compared to the March 2017 half year. The decrease was largely driven by lower trading income in Markets and reduced risk management income in Treasury, partially offset by higher Corporate Finance fees and increased sales of customer risk management products.

Operating expenses increased by \$959 million or 25.3% compared to the March 2017 half year. Excluding restructuring-related costs of \$755 million, operating expenses increased mainly due to uplift in investment in customer and technology capabilities. Restructuring-related costs incurred support the Group's reshaping of the workforce, physical footprint and processes to enable it to better deliver for customers and enhance its competitive position.

Credit impairment charge decreased by \$21 million or 5.3% compared to the March 2017 half year. This is due to the impairment of a smaller number of large exposures in Corporate and Institutional Banking and lower charges in Business and Private Banking. This was partially offset by an increase in the combined level of collective provisions raised for planned model changes and Forward Looking Adjustments (FLAs) for targeted sectors.

Fair value and hedge ineffectiveness improved \$534 million mainly due to favourable movements in interest rates and foreign exchange rates.

The interim dividend for March 2018 half year is 99 cents per share, consistent with the interim dividend for the March 2017 half year. This represents a dividend payout ratio of 96.9% for the March 2018 half year on a cash earnings basis.

The dividend payment is 100% franked and will be paid on 5 July 2018. Shares will be quoted ex-dividend on 15 May 2018.

### Strategic Highlights

#### Purpose, vision and objectives

The Group's purpose is to back the bold who move Australia forward and its vision is to be Australia and New Zealand's most respected bank.

The Group has four aspirational objectives:

1. Net Promoter Score (NPS)<sup>(1)</sup> positive and number one NPS<sup>(1)(2)</sup> of Australian major banks for the Group's priority segments.
2. Cost-to-income ratio towards 35%.
3. Number 1 ROE of Australian major banks.
4. Top quartile employee engagement.

#### Accelerating our strategy<sup>(3)</sup>

In November 2017, the Group announced an acceleration of its strategy to enable the Group to grow while staying focussed on productivity.

The environment in which the Group operates is one of rapid and constant change. The Group's customers are now largely 'digital-first' and expect seamless, personal experiences. New competitors continue to emerge, and community and regulatory expectations have never been greater. The risks faced by the Group are constantly evolving, requiring ever greater vigilance around cybercrime and data protection.

The Group is optimistic about the future and the opportunities for NAB in a changing world and planning for the longer term will allow the Group to move forward in a much stronger position.

The Group expects this to deliver benefits including:

- Improved customer experience with fewer, simpler products, delivered by digital channels.
- Cumulative cost savings, currently targeted at greater than \$1 billion by 30 September 2020, as the Group significantly simplifies and automates processes, reduces procurement and third party costs, and gets closer to its customers with a flatter organisational structure.
- Increased revenue from higher customer retention and targeted market share gains.
- Reduced operational and regulatory risks from a simplified, more responsive and resilient technology environment.

<sup>(1)</sup> Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.

<sup>(2)</sup> Priority Segments Net Promoter Score (NPS) is a simple average of the NPS scores of four priority segments: Home Owners, Investors, Small Business (\$0.1m-<\$5m) and Medium Business (\$5m-<\$50m). The Priority Segments NPS data is based on six months moving averages from Roy Morgan Research and DBM BFSM Research.

<sup>(3)</sup> Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7 of NAB's 2018 Half Year Results Summary.

## Group Performance and Strategic Highlights (continued)

### Strategic Highlights (continued)

The Group is reshaping its workforce to enable it to deliver for its customers. A total of 1,052 FTE exited the Group by the end of April 2018 against the 6,000 roles expected to be impacted by the end of the 2020 financial year. The Group hired 93 new FTE as the Group builds towards its target to create 2,000 new roles. The expected total net reduction in employees, targeted at approximately 4,000 by 30 September 2020, along with efforts to reshape the Group's physical footprint and processes, has given rise to restructuring-related costs of \$755 million (\$530 million after tax). Throughout this process the Group will continue to treat its people with care, respect and equip them for the future.

Reflecting the accelerated investment impact, September 2018 full year expenses are expected to grow 5-8%, with expenses then targeted to remain broadly flat through to 30 September 2020 (excluding the restructuring provision and large one-off expenses). The Board also expects to maintain the final dividend for the September 2018 full year at the same level as the final dividend for the September 2017 full year, subject to no material change in the external environment and satisfactory Group financial performance.

#### How we will win

The Group plans to achieve its objectives through four strategic focus areas: being the best business bank; becoming simpler and faster for its customers and its people; focussing on new and emerging growth opportunities; and developing great leaders, talent and culture.

#### Best business bank

NAB's strength in Business Banking is a key focus for the Group's continued growth. The Group continues to invest to meet customers' changing needs and ensure NAB retains its leading market position. This will be achieved through:

- Empowering relationship bankers
  - Added or relocated 68 resources to support origination in business banking centres to improve the customer experience.
- Leveraging peer leading industry specialisation
  - Increased specialised industry revenue by 8% in the twelve months to 31 March 2018 and currently expanding the Professional Services specialisation nationally following a successful pilot.
- Providing market leading digital and decisioning tools
  - Increased unsecured lending limit of digital small business offering QuickBiz from \$50,000 to \$100,000 and a third of new small business lending accounts established via QuickBiz in March 2018 half year<sup>(1)</sup>.
- Strengthening small business proposition
  - Empowering bankers with capabilities and tools to make decisions and resolve customer needs first time.

#### Simpler and faster

Complexity across the Group adds time and cost to processes, and detracts from delivering a leading customer experience. The Group recognises the need to take a sustained approach to driving efficiency. Key initiatives include:

- Targeting a flatter organisational structure
  - Increased the proportion of FTE seven layers or less from the CEO from 66% to 87% in the six months to 31 March 2018.
- Using a smarter physical network
  - Reduced retail network by 19 branches following analysis of branch usage patterns to identify closures that minimise customer disruption.
  - Rolled out an additional 210 Smart ATMs in the March 2018 half year.
- Providing fewer and more digitised products
  - In the March 2018 half year, reduced total products by 19, and now have 17% of on-sale products capable of digital origination against a target of 60%.
- Scaling and expanding Customer Journeys
  - 96 major customer deliveries to date impacting more than four million consumer customers and more than 100,000 business customers.

#### New and emerging growth opportunities

As well as growing in Business Banking, the Group will pursue opportunities for growth by engaging with new customers, expanding its offering in chosen markets, and leveraging key partnerships. These opportunities include:

- Supporting urban growth corridors
  - Progress made on the development of a flagship hub for Greater Western Sydney in Parramatta Square.
  - Added or relocated more than 25 bankers to service these growth corridors in the March 2018 half year.
- Leveraging global position in infrastructure financing
  - In the March 2018 half year closed 27 deals with total project debt of \$16.3 billion across US, Europe, Asia and Australia.
- Extending NAB's Private Banking reach
  - Launched the Global Investments Desk to assist bankers in wealth conversations, supported by experts from NAB Margin Lending, Corporate Finance and JBWere.
- Offering Australia's leading digital bank - Ubank
  - Launched new mobile banking app Free2Spend simplifying savings and spending decisions.
- Growing via partnerships and innovation
  - Establishing and developing key partnerships with local and global players including Xero, Realestate.com.au, Amazon and Google.
  - Four new investments through NAB Ventures were made in the March 2018 half year.

<sup>(1)</sup> New QuickBiz loan and QuickBiz overdraft accounts as a percentage of total new term lending and overdraft accounts in the Small Business Division.

## Group Performance and Strategic Highlights (continued)

### Strategic Highlights (continued)

#### Great leaders, talent and culture

The Group is committed to attracting best-in-class talent, developing outstanding leaders, and enhancing core organisational capability to drive a high performance culture. Key initiatives include:

- Continued investment in senior executive and key talent using robust assessment data to understand strengths and gaps impacting performance, inform development and identify those with potential to progress.
- Delivery of leadership development programs for line leaders and senior executive key talent.
- Established NAB Cloud Guild, a technology training program which will give more than 2,000 NAB employees the opportunity to develop skills in cloud computing, working with Amazon Web Services (AWS)<sup>(1)</sup>.

#### Foundations

The Group underpins its strategy by maintaining strong foundations: balance sheet strength (including capital, funding and liquidity), prudent risk management (including credit and operational risk) and flexible and resilient technology.

#### Balance sheet

The Group remained well capitalised during the March 2018 half year, and expects to meet APRA's 'unquestionably strong' capital requirements in an orderly manner by 1 January 2020. The Common Equity Tier 1 (CET1) ratio as at 31 March 2018 was 10.2%.

The Group has maintained strong liquidity through the March 2018 half year with a quarterly average Liquidity Coverage Ratio (LCR) of 127%, which is above the APRA requirement of 100%. The 31 March 2018 Net Stable Funding Ratio (NSFR) was 115%, above the APRA minimum regulatory requirement of 100% which came into effect from 1 January 2018.

#### Risk management

Overall credit risk in the Group's portfolio remains sound, and credit impairment charges are stable. Portfolio concentrations are managed with reference to established Group risk appetite settings.

#### Technology capability

The Group is focussed on ensuring fast, flexible, resilient and efficient technology capabilities underpin its operations. This requires world class capabilities and skills, increased use of the cloud, microservices and application programming interfaces (APIs) and a modern technology architecture. In the March 2018 half year the Group assembled a new technology leadership team hired from major technology firms and international banks and launched the NAB Cloud Guild.

#### Reshaping of Wealth Management

In line with the Group's plan to become a simpler and faster bank, the Group has announced a strategy to reshape its Wealth Management offering. This involves an intention to pursue an exit of the Advice, Platform & Superannuation and Asset Management businesses, currently operating under MLC and other brands. Separation is targeted by the end of the 2019 calendar year, subject to market conditions and the required approvals. The Group will continue to serve the needs of its customers by investing in a more focussed wealth offering, including JBWere (part of the Group's leading Business and Private Banking franchise) and nabtrade (the Group's fast growing online investing platform supporting self-directed customers).

<sup>(1)</sup> Amazon Web Services and AWS are trademarks of Amazon.com, Inc. or its affiliates in the United States and / or other countries.

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**Section 3**

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Review of Group Operations and Results <sup>(1)</sup>

## Financial Analysis

## March 2018 v March 2017

**Cash earnings** decreased by \$535 million or 16.2% impacted by restructuring-related costs. Excluding the restructuring-related costs, cash earnings decreased \$5 million or 0.2% mainly driven by higher operating expenses largely from an uplift in investment in technology capabilities and salary increases, and lower trading income in Markets and lower risk management income in Treasury. This was mostly offset by higher income from growth in lending and the full period impact from repricing activity.

**Cash earnings on average risk-weighted assets** decreased by 27 basis points impacted by restructuring-related costs. Excluding the restructuring-related costs, cash earnings on average risk-weighted assets increased 1 basis point. This increase was mainly driven by lower average risk-weighted assets.

**Net interest income** increased by \$357 million or 5.6%, including a decrease of \$41 million which was offset by movements in economic hedges in other operating income. Excluding this movement, the underlying increase was driven by growth in both housing and business lending volumes, combined with repricing activity and lower funding costs. These movements were partially offset by competitive pressures and product mix impacts on housing lending margins, and the impact of the bank levy.

**Other operating income** decreased by \$133 million or 5.4%, including an increase of \$41 million due to movements in economic hedges, offset by net interest income. The underlying decrease was mainly driven by lower trading revenue in Markets and reduced risk management income in Treasury partially offset by higher sales of customer risk management products.

**Operating expenses** increased by \$959 million or 25.3% impacted by restructuring-related costs of \$755 million. Excluding the restructuring-related costs, operating expenses increased \$204 million or 5.4% driven by an uplift in investment in new customer and technology capabilities and annual salary increases partially offset by productivity benefits.

The **credit impairment charge** decreased by \$21 million or 5.3% mainly due to the impairment of a smaller number of larger exposures in Corporate and Institutional Banking and lower charges in Business and Private Banking. These were partially offset by collective provision increases for planned model changes and Forward Looking Adjustments (FLAs) for targeted sectors.

## March 2018 v September 2017

**Cash earnings** decreased by \$589 million or 17.6% impacted by restructuring-related costs. Excluding the restructuring-related costs, cash earnings decreased \$59 million or 1.8% largely driven by higher operating expenses mainly from an uplift in investment in customer and technology capabilities. This was partially offset by higher income from growth in lending and repricing activity, combined with higher trading income.

**Cash earnings on average risk-weighted assets** decreased by 31 basis points impacted by restructuring-related costs. Excluding the restructuring-related costs, cash earnings on average risk-weighted assets decreased 3 basis points. This decrease was driven by lower cash earnings as noted above and largely flat average risk-weighted assets.

**Net interest income** decreased by \$23 million or 0.3%, including a decrease of \$81 million which was offset by movements in economic hedges in other operating income. Excluding this movement, the underlying increase was driven by growth in both housing and business lending volumes combined with a higher margin (excluding Markets and Treasury impact) mainly from favourable funding costs partially offset by the full period impact of the bank levy. Benefits from prior period repricing activity offset competitive pressures and product mix impacts on housing lending margins.

**Other operating income** increased by \$90 million or 4.0%, including an increase of \$81 million due to movements in economic hedges, offset in net interest income. The underlying increase was largely due to higher Corporate and Institutional Banking fee income, and an increase in sales of customer risk management products, partially offset by lower income due to the partial sale of an asset management subsidiary in the prior period.

**Operating expenses** increased by \$894 million or 23.2% impacted by restructuring-related costs of \$755 million. Excluding the restructuring-related costs, operating expenses increased \$139 million or 3.6% driven by an uplift in investment in customer and technology capabilities, normalised incentive based remuneration and the impact of annual salary increases partially offset by productivity benefits.

The **credit impairment charge** decreased by \$43 million or 10.3% driven by a decrease in specific credit impairment charges mainly due to lower charges in Business and Private Banking. Collective credit impairment charges were largely flat compared to September 2017.

<sup>(1)</sup> Information is presented on a continuing operations basis.

## Net Interest Income <sup>(1)</sup>

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18	Sep 17	Mar 17		
Net interest income (\$m)	6,750	6,773	6,393	(0.3)	5.6
Average interest earning assets (\$bn)	725.1	718.2	704.3	1.0	3.0
Net interest margin (%)	1.87	1.88	1.82	(1 bp)	5 bps

## Net Interest Income - Contribution to Net Movement <sup>(1)</sup>



<sup>(1)</sup> Corporate Functions, Treasury & Other includes eliminations. Refer to page 49 for the definition of Corporate Functions.

### March 2018 v March 2017

**Net interest income** increased by \$357 million or 5.6%. This includes a decrease of \$41 million which was offset by movements in economic hedges in other operating income. Excluding this movement, the underlying increase was due to:

- Growth in housing and business lending volumes, reflecting the Group's focus on priority segments in Australia and New Zealand.
- Repricing of the housing and business lending portfolios in Australia and New Zealand.
- Decrease in funding and liquidity costs, reflecting lower deposits costs and lower wholesale funding costs.

The underlying increase was partially offset by:

- The impact of the bank levy introduced in the final quarter of the 2017 year.
- Competitive pressures and product mix impacts effecting housing lending margins.
- Lower earnings on capital driven by a decline in the earnings rate, reflecting the low interest rate environment.

### March 2018 v September 2017

**Net interest income** decreased by \$23 million or 0.3%. This includes a decrease of \$81 million which was offset by movements in economic hedges in other operating income. Excluding this movement, the underlying increase was due to:

- Growth in housing and business lending volumes, reflecting the Group's focus on priority segments in Australia and New Zealand.
- Repricing of the housing and business lending portfolios in Australia and New Zealand.
- Decrease in funding and liquidity costs.

The underlying increase was partially offset by:

- The full period impact of the bank levy introduced in the final quarter of the 2017 year.
- Competitive pressures and product mix impacts effecting housing lending margins.

<sup>(1)</sup> Information is presented on a continuing operations basis.



Net Interest Margin <sup>(1)</sup>

	Half Year to			Mar 18 v Sep 17	Mar 18 v Mar 17
	Mar 18 %	Sep 17 %	Mar 17 %		
Group net interest margin	1.87	1.88	1.82	(1 bp)	5 bps
Business and Private Banking	2.97	2.91	2.84	6 bps	13 bps
Consumer Banking and Wealth	2.06	2.10	2.03	(4 bps)	3 bps
Corporate and Institutional Banking	0.79	0.84	0.81	(5 bps)	(2 bps)
New Zealand Banking	2.24	2.21	2.15	3 bps	9 bps

## Group Net Interest Margin Movement



<sup>(1)</sup> Markets & Treasury includes Liquid assets and Marketable securities.

## March 2018 v March 2017

The Group's **net interest margin** increased by 5 basis points due to:

- An increase of 7 basis points in lending margin mainly due to repricing in mortgages that occurred in the March 2017 half year.
- An increase of 6 basis points due to lower funding and liquidity costs driven by both lower deposit costs and lower wholesale funding costs.
- A decrease of 5 basis points due to the impact of the bank levy introduced in the final quarter of the 2017 year.
- A decrease of 1 basis point due to a lower earnings rate on capital as a result of the low interest rate environment.
- A decrease of 2 basis points in Markets and Treasury due to lower net interest income from Treasury and hedging activities, largely offset in other operating income, and lower Markets net interest income.

## March 2018 v September 2017

The Group's **net interest margin** decreased by 1 basis point due to:

- An increase of 4 basis points due to lower funding costs driven by both lower deposit costs and lower wholesale funding costs.
- A decrease of 3 basis points due to the full period impact of the bank levy.
- A decrease of 2 basis points in Markets and Treasury due to lower net interest income from Treasury hedging activities, largely offset in other operating income, and lower Markets net interest income.

<sup>(1)</sup> Information is presented on a continuing operations basis.

## Other Operating Income <sup>(1)</sup>

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Fees and commissions	1,088	1,060	1,071	2.6	1.6
Trading income	610	519	721	17.5	(15.4)
Other	645	674	684	(4.3)	(5.7)
Other operating income	2,343	2,253	2,476	4.0	(5.4)

## Other Operating Income - Contribution to Net Movement <sup>(1)</sup>



<sup>(1)</sup> Includes net investment income.

<sup>(2)</sup> Corporate Functions & Other includes eliminations. Refer to page 49 for the definition of Corporate Functions.

### March 2018 v March 2017

**Other operating income** decreased by \$133 million or 5.4%.

**Fees and commissions** increased by \$17 million or 1.6%. The increase was due to higher Corporate and Institutional Banking fee income combined with increased line fee income in New Zealand Banking, partially offset by lower fees in Consumer Banking and Wealth following the ATM fee waiver.

**Trading income** decreased by \$111 million or 15.4%. This result includes an increase of \$41 million due to movements in economic hedges, offset in net interest income. The underlying decrease was due to lower trading revenue in Markets and reduced risk management income in Treasury, partially offset by higher sales of customer risk management products.

**Other income** decreased by \$39 million or 5.7%. The decrease was mainly due to lower income from sales of asset management businesses in prior periods, partially offset by revenue growth from higher FUM/A and AUM as a result of stronger investment markets.

### March 2018 v September 2017

**Other operating income** increased by \$90 million or 4.0%.

**Fees and commissions** increased by \$28 million or 2.6%. The increase was mainly due to higher Corporate and Institutional Banking fee income, partially offset by lower fees in Consumer Banking and Wealth following the ATM fee waiver.

**Trading income** increased by \$91 million or 17.5%. This result includes an increase of \$81 million due to movements in economic hedges, offset in net interest income. The underlying increase was due to higher sales of customer risk management products.

**Other income** decreased by \$29 million or 4.3%. The decrease was mainly due to lower income following the sale of an asset management business in the prior period, partially offset by revenue growth from higher FUM/A and AUM as a result of stronger investment markets.

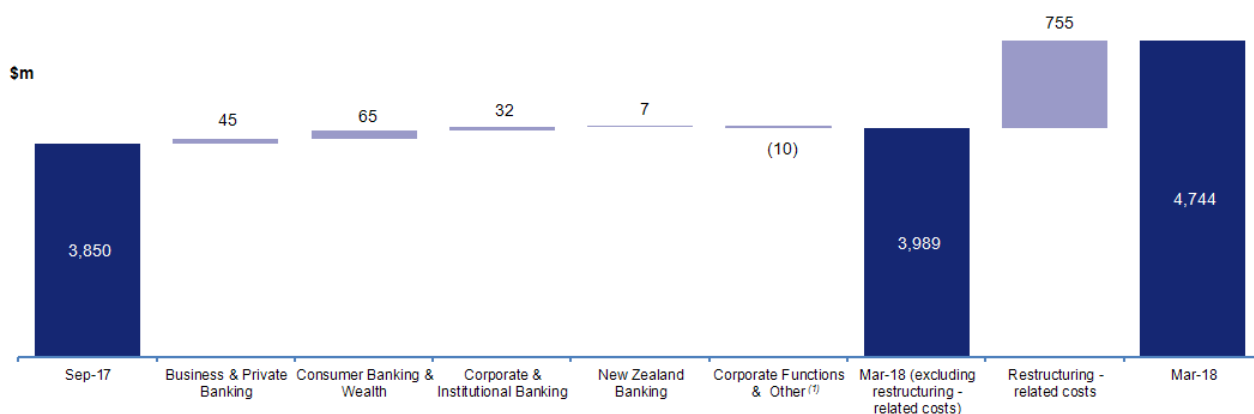
<sup>(1)</sup> Information is presented on a continuing operations basis.

Operating Expenses <sup>(1)</sup>

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Personnel expenses	2,648	2,099	2,221	26.2	19.2
Occupancy related expenses	384	342	339	12.3	13.3
General expenses	1,712	1,409	1,225	21.5	39.8
Total operating expenses	4,744	3,850	3,785	23.2	25.3

Operating Expenses (excluding restructuring-related costs) <sup>(2)</sup>

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Personnel expenses	2,221	2,099	2,221	5.8	-
Occupancy related expenses	349	342	339	2.0	2.9
General expenses	1,419	1,409	1,225	0.7	15.8
Total operating expenses	3,989	3,850	3,785	3.6	5.4

Operating Expenses - Contribution to Net Movement <sup>(1)</sup>

<sup>(1)</sup> Corporate Functions & Other includes eliminations. Refer to page 49 for the definition of Corporate Functions.

## March 2018 v March 2017

**Operating expenses** increased by \$959 million or 25.3%. Excluding restructuring-related costs, operating expenses increased \$204 million or 5.4%.

**Personnel expenses** excluding restructuring-related costs were flat reflecting an increase of annual salaries and increased investments offset by productivity benefits.

**Occupancy related expenses** excluding restructuring-related costs increased by \$10 million or 2.9%. The increase was driven by property rental increases.

**General expenses** excluding restructuring-related costs increased by \$194 million or 15.8%. The increase was driven by additional investment in new capabilities including customer experience, payments infrastructure and technology resilience and transformation partially offset by productivity benefits.

## March 2018 v September 2017

**Operating expenses** increased by \$894 million or 23.2%. Excluding restructuring-related costs, operating expenses increased \$139 million or 3.6%.

**Personnel expenses** excluding restructuring-related costs increased by \$122 million or 5.8%. The increase was driven by higher investment operating expense spend, normalised incentive based remuneration and the impact of annual salary increases partially offset by productivity benefits.

**Occupancy related expenses** excluding restructuring-related costs increased \$7 million or 2.0%. This was driven by property rental increases.

**General expenses** excluding restructuring-related costs increased by \$10 million or 0.7%. The increase was driven by additional investment in new capabilities including customer experience, payments infrastructure and technology resilience and transformation partially offset by productivity benefits.

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> Refer to Note 4 Operating expenses for further information.

## Investment Spend <sup>(1)</sup>

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Infrastructure	264	234	214	12.8	23.4
Compliance / Operational Risk	189	185	167	2.2	13.2
Efficiency and Sustainable Revenue	239	235	179	1.7	33.5
<b>Total Investment Spend</b>	<b>692</b>	<b>654</b>	<b>560</b>	<b>5.8</b>	<b>23.6</b>

**Investment spend** is expenditure on projects and initiatives designed to enhance the customer experience, comply with legal and regulatory requirements, and improve capabilities and efficiencies in the Group's business processes. In November 2017, the Group announced an acceleration of its strategy and investment spend profile. Investment spend for the March 2018 half year was \$692 million, an increase of \$132 million or 23.6% compared to the March 2017 half year, and an increase of \$38 million or 5.8% compared to the September 2017 half year.

### March 2018 v March 2017

Investment in infrastructure projects increased by \$50 million or 23.4%, largely driven by spend on increased cyber security capability, rollout of the Smart ATM network and cloud based infrastructure. This has been partially offset by reduced spend in relation to the new payments platform.

Investment in compliance and operational risk projects increased by \$22 million or 13.2%, largely driven by uplifting NAB's technology resilience and transformation capability, delivery of process and control improvements around recording and management of business lending securities and implementation of the Markets in Financial Instruments Directive (MiFID II).

Investment in efficiency and sustainable revenue projects increased by \$60 million or 33.5%, reflecting the Group's ongoing commitment to innovate and enhance the customer experience.

### March 2018 v September 2017

Investment in infrastructure projects increased by \$30 million or 12.8% largely driven by increased cyber security capability and the rollout of cloud based infrastructure. This has been partially offset by reduced spend in relation to the new payments platform.

Investment in compliance and operational risk projects has increased by \$4 million or 2.2% largely driven by uplifting NAB's technology resilience and transformation capabilities offset by reduced spending on our Wealth business Stronger Super Reforms.

Investment in efficiency and sustainable revenue projects increased by \$4 million or 1.7% largely driven by the Group's ongoing commitment to innovate and enhance the customer experience.

<sup>(1)</sup> Information is presented on a continuing operations basis.

Taxation <sup>(1)</sup>

	Half Year to			Mar 18 v	Mar 18 v
	Mar 18	Sep 17	Mar 17	Sep 17	Mar 17
Income tax expense (\$m)	1,168	1,363	1,347	(14.3%)	(13.3%)
Effective tax rate (%)	29.4	28.6	28.7	80 bps	70 bps

**March 2018 v March 2017**

**Cash earnings income tax expense** decreased by \$179 million or 13.3%, mainly due to a decrease in cash earnings before tax.

The **cash earnings effective tax rate** of 29.4% increased by 70 basis points, mainly due to a change in the mix of income derived in different jurisdictions and a decrease in the amount of foreign branch income not assessable.

**March 2018 v September 2017**

**Cash earnings income tax expense** decreased by \$195 million or 14.3%, mainly due to a decrease in cash earnings before tax.

The **cash earnings effective tax rate** of 29.4% increased by 80 basis points, due to a change in the mix of income derived in different jurisdictions, a change in over / under provisions for tax in prior periods and certain one-off non-taxable gains being recognised in the September 2017 half year.

<sup>(1)</sup> Information is presented on a continuing operations basis.

## Lending <sup>(1)</sup>

	As at			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	31 Mar 18 \$m	30 Sep 17 \$m	31 Mar 17 \$m		
<b>Housing</b>					
Business and Private Banking	90,625	90,438	89,681	0.2	1.1
Consumer Banking and Wealth	206,994	202,508	195,787	2.2	5.7
Corporate and Institutional Banking	174	2,171	2,269	(92.0)	(92.3)
New Zealand Banking	35,965	34,417	33,051	4.5	8.8
Total housing	333,758	329,534	320,788	1.3	4.0
<b>Non-housing</b>					
Business and Private Banking	105,775	103,288	100,771	2.4	5.0
Consumer Banking and Wealth	6,893	6,875	7,270	0.3	(5.2)
Corporate and Institutional Banking	85,277	85,852	83,333	(0.7)	2.3
New Zealand Banking	39,173	38,350	36,605	2.1	7.0
Corporate Functions and Other	364	1,247	1,276	(70.8)	(71.5)
Total non-housing	237,482	235,612	229,255	0.8	3.6
<b>Gross loans and advances including acceptances</b>	<b>571,240</b>	<b>565,146</b>	<b>550,043</b>	<b>1.1</b>	<b>3.9</b>

### March 2018 v March 2017

**Lending** (gross loans and advances including acceptances) increased by \$21.2 billion or 3.9% due to growth in housing and business lending.

**Housing** lending increased by \$13.0 billion or 4.0% mainly due to:

- An increase of \$0.9 billion in Business and Private Banking due to growth in the proprietary channel driven by initiatives around mortgage retention and targeted marketing campaigns.
- An increase of \$11.2 billion in Consumer Banking and Wealth reflecting continued growth in broker and proprietary channels, for the same reasons included above.
- An increase of \$2.9 billion in New Zealand Banking reflecting growth in broker and proprietary channels.
- A decrease of \$2.1 billion in Corporate and Institutional Banking due to the sale of the Private Wealth business in Asia.

**Non-housing** lending increased by \$8.2 billion or 3.6% mainly due to:

- An increase of \$5.0 billion in Business and Private Banking, driven by NAB Business and Specialised Banking and a focus on growth in key geographic areas.
- An increase of \$1.9 billion in Corporate and Institutional Banking reflecting growth across key segments.
- An increase of \$2.6 billion in New Zealand Banking reflecting strong growth across key segments.

### March 2018 v September 2017

**Lending** (gross loans and advances including acceptances) increased by \$6.1 billion or 1.1%.

**Housing** lending increased by \$4.2 billion or 1.3% mainly due to:

- An increase of \$0.2 billion in Business and Private Banking was subdued following regulatory limits on interest-only lending.
- An increase of \$4.5 billion in Consumer Banking and Wealth largely due to growth in the broker channel.
- An increase of \$1.5 billion in New Zealand Banking reflecting growth in both proprietary and broker channels.

**Non-housing** lending increased by \$1.9 billion or 0.8% mainly due to:

- An increase of \$2.5 billion in Business and Private Banking driven by growth in key customer segments.
- An increase of \$0.8 billion in New Zealand Banking reflecting growth across key segments.
- A decrease of \$0.6 billion in Corporate and Institutional Banking due to returns focussed portfolio management.

<sup>(1)</sup> Information is presented on a continuing operations basis.

Goodwill and Other Intangible Assets <sup>(1)</sup>

Goodwill increased by \$1 million compared to the September 2017 full year due to the effects of foreign exchange.

Intangible assets comprise capitalised software and other intangible assets. Intangible assets increased by \$7 million or 0.3% compared to the September 2017 full year. This increase was largely attributable to continued investment in software, offset by software write-offs (\$146 million restructuring-related) and higher amortisation as software has been deployed.

The Group continues to invest in software to support its customer focussed strategic objectives (refer to page 23). Major investments currently being undertaken are:

- In Australia, further investment in enhancing the digital capabilities of the Australian franchise, enhancing technology resilience, transforming the customer experience, as well as regulatory compliance initiatives.
- In New Zealand, continued investment in capabilities to support the implementation of the Bank of New Zealand strategic plan, particularly its digitisation and automation agenda.

The movement in capitalised software is as follows:

	Half Year ended		
	Mar 18	Sep 17	Mar 17
	\$m	\$m	\$m
Balance at beginning of period	2,706	2,490	2,344
Additions	350	430	336
Disposals and write-offs	(148)	(20)	-
Amortisation	(198)	(196)	(181)
Foreign currency translation adjustments	3	2	(9)
<b>Capitalised software</b>	<b>2,713</b>	<b>2,706</b>	<b>2,490</b>

<sup>(1)</sup> Information is presented on a continuing operations basis.

## Customer Deposits <sup>(1)</sup>

	As at			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	31 Mar 18 \$m	30 Sep 17 \$m	31 Mar 17 \$m		
Business and Private Banking	132,698	129,979	127,017	2.1	4.5
Consumer Banking and Wealth	118,475	116,318	112,693	1.9	5.1
Corporate and Institutional Banking	89,617	96,966	93,652	(7.6)	(4.3)
New Zealand Banking	54,807	50,685	48,461	8.1	13.1
Corporate Functions and Other	12,807	13,637	17,737	(6.1)	(27.8)
<b>Total customer deposits</b>	<b>408,404</b>	<b>407,585</b>	<b>399,560</b>	<b>0.2</b>	<b>2.2</b>

### March 2018 v March 2017

**Customer deposits** increased by \$8.8 billion or 2.2%. This is as a result of the Group continuing to execute on its funding strategy, which includes growth in stable and higher quality customer deposits. This growth was due to:

- An increase of \$5.7 billion or 4.5% in Business and Private Banking, driven from growth in on-demand business savings of \$2.4 billion and non bearing interest business transaction accounts of \$1.8 billion and \$0.8 billion of home loan offsets, combined with term deposits of \$0.7 billion, reflecting a continued focus on quality of deposits.
- An increase of \$5.8 billion or 5.1% in Consumer Banking and Wealth from on-demand and term deposits of \$4.1 billion and deposits not bearing interest, largely home loan offsets of \$1.2 billion and transaction accounts of \$0.5 billion.
- An increase of \$6.3 billion or 13.1% in New Zealand Banking mainly due to growth in term deposits of \$4.9 billion, on-demand short-term deposits of \$0.7 billion and deposits not bearing interest, largely business transaction accounts of \$0.5 billion and home loan offsets of \$0.2 billion. This is as a result of strong New Zealand system growth.
- A decrease of \$4.9 billion or 27.8% in Corporate Functions and Other due to a decrease in on-demand and term deposits in Group Treasury as a result of changes to liquidity requirements.
- A decrease of \$4.0 billion or 4.3% in Corporate and Institutional Banking. This was mainly due to a decrease in term deposits of \$5.5 billion driven by the sale of the Private Wealth business in Asia. This was partially offset by growth in on-demand short-term deposits of \$1.2 billion and non interest bearing transaction accounts of \$0.3 billion.

### March 2018 v September 2017

**Customer deposits** increased by \$0.8 billion or 0.2%. This growth was due to:

- An increase of \$2.7 billion or 2.1% in Business and Private Banking, driven from growth in on-demand business savings and transaction accounts of \$1.7 billion, combined with deposits not bearing interest of \$1.2 billion largely due to home loan offsets. This has been partially offset by a decline in term deposits of \$0.2 billion.
- An increase of \$2.2 billion or 1.9% in Consumer Banking and Wealth, due to growth in term deposits of \$0.3 billion, deposits not bearing interest, largely home loan offsets of \$0.4 billion and transaction accounts of \$0.1 billion and on-demand savings of \$1.4 billion.
- An increase of \$4.1 billion or 8.1% in New Zealand Banking. This was due to growth in term deposits of \$2.1 billion, growth in on-demand deposits of \$1.5 billion and deposits not bearing interest, largely business transaction accounts of \$0.4 billion and home loan offsets of \$0.1 billion.
- A decrease of \$7.3 billion or 7.6% in Corporate and Institutional Banking. This was mainly due to a decrease in term deposits of \$5.8 billion and a decrease in on-demand and deposits not bearing interest of \$1.5 billion, driven by the sale of the Private Wealth business in Asia.
- A decrease of \$0.8 billion or 6.1% in Corporate Functions and Other. This was mainly due to a decrease in on-demand deposits in Group Treasury of \$1.6 billion, partially offset by an increase in term deposits of \$0.8 billion.

<sup>(1)</sup> Information is presented on a continuing operations basis.



Asset Quality <sup>(1)</sup>

## Credit Impairment Charge

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Specific credit impairment charge - new and increased	366	439	610	(16.6)	(40.0)
Specific credit impairment charge - write-backs	(94)	(106)	(136)	(11.3)	(30.9)
Specific credit impairment charge - recoveries	(45)	(65)	(46)	(30.8)	(2.2)
Specific credit impairment charge	227	268	428	(15.3)	(47.0)
Collective credit impairment charge / (write-back)	146	148	(34)	(1.4)	large
<b>Total credit impairment charge</b>	<b>373</b>	<b>416</b>	<b>394</b>	<b>(10.3)</b>	<b>(5.3)</b>

	Half Year to			Mar 18 v Sep 17	Mar 18 v Mar 17
	Mar 18	Sep 17	Mar 17		
Credit impairment charge to gross loans and acceptances (annualised)	0.13%	0.15%	0.14%	(2 bps)	(1 bp)
Net write-offs to loans and acceptances (annualised) <sup>(2)</sup>	0.07%	0.11%	0.15%	(4 bps)	(8 bps)

## March 2018 v March 2017

The total credit impairment charge was \$373 million, a decrease of \$21 million or 5.3%.

Specific credit impairment charge of \$227 million decreased by \$201 million, driven by:

- Lower charges in Corporate and Institutional Banking mainly due to the impairment of a smaller number of larger exposures.
- Lower charges in Business and Private Banking driven by a reduction in the number of individual impaired exposures.

The March 2018 half year collective credit impairment charge was \$146 million, an increase of \$180 million, driven by:

- An increase in the combined level of collective provisions raised for planned model changes and Forward Looking Adjustments (FLAs) for targeted sectors.
- Collective provision releases in the March 2017 half year, due to the impairment of a small number of larger exposures.

The Group ratio of net write-offs to gross loans and acceptances decreased by 8 basis points to 0.07%, as the higher level of Corporate and Institutional Banking write-offs in the March 2017 half year were not repeated.

The 12 month rolling net write-offs for the retail portfolio (0.09% of gross retail loans), which includes the housing portfolio (0.02% of gross housing loans), remain stable.

## March 2018 v September 2017

Total credit impairment charge was \$373 million, a decrease of \$43 million or 10.3%.

Specific credit impairment charge of \$227 million decreased by \$41 million largely due to lower charges in Business and Private Banking driven by a reduction in the number of individual impaired exposures.

The March 2018 half year collective credit impairment charge was \$146 million, a decrease of \$2 million. This reflects a lower level of collective provision FLAs raised for targeted sectors, offset by collective provision increases for planned model changes in the March 2018 half year.

The Group ratio of net write-offs to gross loans and acceptances decreased by 4 basis points to 0.07% for the March 2018 half year. This was largely due to lower write-offs on larger exposures within Corporate and Institutional Banking.

The 12 month rolling net write-offs for the retail portfolio (0.09% of gross retail loans), which includes the housing portfolio (0.02% of gross housing loans), remain stable.

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> Net write-offs include net write-offs of fair value loans.

## Asset Quality (continued) <sup>(1)</sup>

### Provision for Credit Impairment

	As at			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	31 Mar 18	30 Sep 17	31 Mar 17		
	\$m	\$m	\$m		
Collective provision on loans at amortised cost	2,699	2,535	2,373	6.5	13.7
Collective provision on loans at fair value	92	114	126	(19.3)	(27.0)
Collective provision on derivatives at fair value	147	149	196	(1.3)	(25.0)
Total collective provision for credit impairment	2,938	2,798	2,695	5.0	9.0
Total specific provision for credit impairment <sup>(2)</sup>	710	691	748	2.7	(5.1)
<b>Total provision for credit impairment</b>	<b>3,648</b>	<b>3,489</b>	<b>3,443</b>	<b>4.6</b>	<b>6.0</b>

	As at			Mar 18 v Sep 17	Mar 18 v Mar 17
	31 Mar 18	30 Sep 17	31 Mar 17		
Total provision to gross loans and acceptances	0.64%	0.62%	0.63%	2 bps	1 bp
Total provisions to net write-offs (annualised) <sup>(3) (4)</sup>	862%	473%	415%	large	large
Specific provision to gross impaired assets <sup>(5)</sup>	46.3%	45.5%	44.9%	80 bps	140 bps
Collective provision to credit risk-weighted assets	0.89%	0.86%	0.85%	3 bps	4 bps
Collective provision to gross loans and acceptances	0.51%	0.50%	0.49%	1 bp	2 bps

### March 2018 v March 2017

Total provisions for credit impairment increased by \$205 million to \$3,648 million.

Specific provisions decreased by \$38 million to \$710 million due to low levels of newly impaired assets, combined with successful work-out strategies across the Australian business lending portfolio.

Total collective provisions increased by \$243 million to \$2,938 million. This was mainly due to:

- Collective provision FLAs raised for the mortgage and retail trade portfolios.
- Collective provision increases for planned model changes.

This was partially offset by:

- Release of collective provisions for improvements in credit quality across the lending portfolio, including New Zealand dairy exposures.
- Reduced collective provisions held for the derivatives portfolio due to market movements.

The collective provision to credit risk-weighted assets ratio increased by 4 basis points to 0.89% at March 2018, predominately due to collective provision increases for planned model changes and targeted sector FLAs.

### March 2018 v September 2017

Total provisions for credit impairment increased by \$159 million to \$3,648 million.

Specific provisions increased by \$19 million to \$710 million mainly due the impairment of a small number of larger exposures.

Total collective provisions increased by \$140 million to \$2,938 million. This was mainly due to:

- Collective provision increases for planned model changes.
- Top up to the existing collective provision FLA for the retail trade portfolio.

This was partially offset by:

- Release of collective provisions for improvements in credit quality across the lending portfolio, including New Zealand dairy exposures.

The collective provision to credit risk-weighted assets ratio increased by 3 basis points to 0.89% over the March 2018 half year due to collective provision increases for planned model changes and targeted sector FLAs.

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> Includes \$1 million (September 2017: \$2 million; March 2017: \$1 million) of specific provision on loans at fair value.

<sup>(3)</sup> March 2018 and March 2017 metrics refer to the half year ratio annualised; September 2017 metrics refers to the full year ratio.

<sup>(4)</sup> Net write-offs include net write-offs of fair value loans.

<sup>(5)</sup> Consists only of impaired assets where a specific provision has been raised and excludes \$76 million (NZ\$81 million), (September 2017: \$205 million (NZ\$222 million), March 2017: \$726 million (NZ\$795 million)) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

Asset Quality (continued) <sup>(1)</sup>

## 90+ Days Past Due and Gross Impaired Assets

	As at			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	31 Mar 18 \$m	30 Sep 17 \$m	31 Mar 17 \$m		
90+ days past due (DPD) loans	2,427	2,245	2,282	8.1	6.4
Gross impaired assets <sup>(2)</sup>	1,609	1,724	2,393	(6.7)	(32.8)
<b>90+ DPD and gross impaired assets</b>	<b>4,036</b>	<b>3,969</b>	<b>4,675</b>	<b>1.7</b>	<b>(13.7)</b>

	As at			Mar 18 v Sep 17	Mar 18 v Mar 17
	31 Mar 18	30 Sep 17	31 Mar 17		
90+ DPD loans to gross loans and acceptances	0.43%	0.40%	0.41%	3 bps	2 bps
Gross impaired assets to gross loans and acceptances	0.28%	0.30%	0.44%	(2 bps)	(16 bps)
<b>90+ DPD and gross impaired assets to gross loans and acceptances</b>	<b>0.71%</b>	<b>0.70%</b>	<b>0.85%</b>	<b>1 bp</b>	<b>(14 bps)</b>

## March 2018 v March 2017

The Group ratio of 90+ DPD loans to gross loans and acceptances has increased by 2 basis points to 0.43%, primarily driven by the Australian mortgage portfolio. This has been partially offset by continued improvement in the business lending portfolio.

The Group ratio of gross impaired assets to gross loans and acceptances decreased by 16 basis points to 0.28%. This was predominantly driven by the improved conditions for the New Zealand dairy industry resulting in a reduction in the impaired dairy portfolio for which no loss (based on security held) is currently expected. This has been combined with a number of successful work-out strategies across the Australian lending portfolio, partially offset by the impairment of a small number of larger exposures.

## March 2018 v September 2017

The Group ratio of 90+ DPD loans to gross loans and acceptances has increased by 3 basis points to 0.43%, primarily driven by the Australian mortgage portfolio. This was mainly due to deterioration in Western Australia reflecting economic conditions including mining sector stress, combined with a modest increase in delinquencies across all states except for South Australia.

The Group ratio of gross impaired assets to gross loans and acceptances decreased by 2 basis points to 0.28%. The decrease was predominantly driven by the improved conditions for the New Zealand dairy industry resulting in a reduction in the impaired dairy portfolio for which no loss (based on security held) is currently expected.

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> Gross impaired assets include \$76 million (NZ\$81 million), (September 2017: \$205 million (NZ\$222 million), March 2017: \$726 million (NZ\$795 million)) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

## Capital Management and Funding

### Balance Sheet Management Overview

The Group aims to maintain a strong capital, funding and liquidity position, in line with its ongoing commitment to balance sheet strength. This includes:

- Seeking to maintain a well-diversified wholesale funding portfolio which accesses a range of funding and capital options across various senior, subordinated, secured and hybrid markets.
- Continuing to monitor and assess its position so that changes in market conditions and regulation can be accommodated.

### Regulatory Reform

The Group remains focussed on areas of regulatory change. Key reforms that may affect its capital and funding include:

#### *'Unquestionably Strong' and Basel III Revisions:*

- In December 2017, the Basel Committee on Banking Supervision (BCBS) finalised the Basel III capital framework. In response, APRA commenced consultation on revisions to the domestic capital framework in February 2018 and reaffirmed its intention to strengthen banking system resilience by establishing 'unquestionably strong' capital ratios. APRA expects major Australian banks to achieve Common Equity Tier 1 capital ratios of at least 10.5% by 1 January 2020 based on existing risk-weighted asset (RWA) methodologies.
- APRA's consultation on revisions to the capital framework includes amendments to the standardised and internal ratings-based (IRB) approaches to credit risk, operational risk, and interest rate risk in the banking book. Draft revised standards are expected to be released from late 2018 and APRA is currently proposing an implementation date of 1 January 2021. To calibrate the various aspects of the proposals including the potential application of overlays, APRA is undertaking a quantitative assessment.
- APRA has also proposed a minimum leverage ratio requirement of 4% for IRB ADIs and revised leverage ratio exposure measurement methodology from 1 July 2019. The Group's Leverage Ratio as at 31 March 2018 of 5.6% is disclosed in further detail within NAB's March 2018 Pillar 3 Report.
- APRA has finalised its prudential requirements for the standardised approach to counterparty credit risk (SA-CCR), which introduces the new Prudential Standard APS 180: Counterparty Credit Risk. These requirements will take effect from 1 July 2019.

Further detail on the regulatory changes impacting the Group can be found in NAB's March 2018 Pillar 3 Report.

### Capital Management

The Group's capital management strategy is focussed on adequacy, efficiency and flexibility. The capital adequacy objective seeks to ensure sufficient capital is held in excess of internal risk-based capital assessments and regulatory requirements, and is within the Group's balance sheet risk appetite. This approach is consistent across the Group's subsidiaries.

The Group's capital ratio operating targets are regularly reviewed in the context of the external economic and regulatory outlook with the objective of maintaining balance sheet strength. The Group expects that it can meet the new 'unquestionably strong' capital requirements in an orderly manner by 1 January 2020.

### Pillar 3 Disclosures

Further disclosures with respect to capital adequacy and risk management are included in the March 2018 Pillar 3 Report as required by APRA Prudential Standard APS 330 "Public Disclosure".

## Capital Management and Funding (continued)

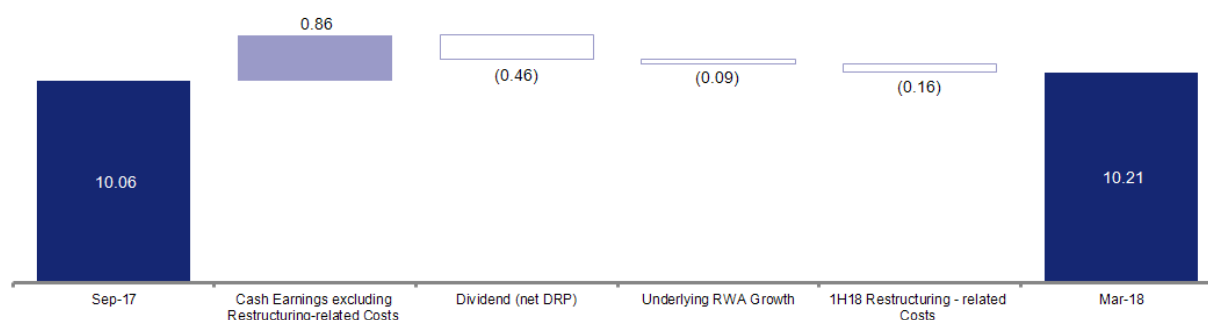
## Capital Management (continued)

## Capital Ratios

Capital Ratios	As at			Mar 18 v Sep 17	Mar 18 v Mar 17
	31 Mar 18 %	30 Sep 17 %	31 Mar 17 %		
Common Equity Tier 1	10.21	10.06	10.11	15 bps	10 bps
Tier 1	12.40	12.41	12.51	(1 bp)	(11 bps)
Total capital	14.43	14.58	14.71	(15 bps)	(28 bps)

Risk-Weighted Assets <sup>(1)</sup>	As at			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	31 Mar 18 \$m	30 Sep 17 \$m	31 Mar 17 \$m		
Credit risk	329,882	325,969	317,853	1.2	3.8
Market risk	8,656	7,766	7,001	11.5	23.6
Operational risk	39,027	37,575	37,500	3.9	4.1
Interest rate risk in the banking book <sup>(2)</sup>	9,850	10,804	12,133	(8.8)	(18.8)
<b>Total risk-weighted assets</b>	<b>387,415</b>	<b>382,114</b>	<b>374,487</b>	<b>1.4</b>	<b>3.5</b>

## Movements in Basel III Common Equity Tier 1 Ratio



## Capital Movements During the Period

The Group's CET1 ratio was 10.2% at 31 March 2018. The key movements in capital over the March 2018 half year include:

- Cash earnings excluding restructuring-related costs resulted in an increase of 86 basis points.
- Payment of the September 2017 half year dividend net of Dividend Reinvestment Plan (DRP) reduced the CET1 ratio by 46 basis points.
- The net increase in underlying RWA reduced the CET1 ratio by 9 basis points. Increases in credit risk RWA resulting from volume growth and higher RWA for operational risk and market risk has been partly offset by a reduction in IRRBB.
- The restructuring-related costs of \$755 million (\$530 million after tax) resulted in a decrease of 16 basis points.

## Dividend and Dividend Reinvestment Plan

The Group periodically adjusts the DRP to reflect its capital position and outlook. The interim dividend for the year ending 30 September 2018 has been maintained at 99 cents and the DRP discount is nil with no participation limit.

## National Income Securities

The distributions on the National Income Securities are currently not able to be franked due to a provision in the tax law which applies specifically to instruments that qualify as Tier 1 Capital for prudential purposes. When the National Income Securities no longer qualify as Tier 1 Capital from 31 December 2021, it is expected that any subsequent distributions will be franked to the same extent as dividends on NAB's ordinary shares are franked.

## Tier 2 Capital Initiatives

The Group's Tier 2 Capital initiatives during the March 2018 half year include the following capital reductions:

- On 28 November 2017 NAB redeemed \$950 million of Subordinated Notes.
- The Group also repurchased and surrendered for cancellation in aggregate US\$29 million of the Undated Subordinated Notes issued on 9 October 1986. The outstanding nominal amount of the Undated Subordinated Notes is US\$87 million as at 31 March 2018.

<sup>(1)</sup> Prior period RWA numbers have not been restated to reflect the continuing operations as they are used to calculate the regulatory capital ratios as at each prior reporting period as disclosed above.

<sup>(2)</sup> Due to an IRRBB model amendment reflected in the 30 September 2017 and 31 March 2018 results, the equivalent 31 March 2017 result would now be \$10,895 million.

## Capital Management and Funding (continued)

### Funding and Liquidity

The Group monitors the composition and stability of funding and liquidity through the Board approved risk appetite which includes compliance with regulatory requirements of APRA's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Compliance with the NSFR became effective on 1 January 2018.

The Group continues to pursue opportunities to further enhance and diversify its liquid asset holdings and funding sources.

### Funding

The Group employs a range of metrics to set its risk appetite and measure balance sheet strength. At 31 March the Group's NSFR was 115%, a significant buffer to the regulatory minimum of 100%. This position was supported by term wholesale funding issuance being executed in excess of term wholesale funding maturities and an ongoing focus on improving the quality of the deposit portfolio over the March 2018 half year.

Another key structural measure used is the Stable Funding Index (SFI), which is made up of the Customer Funding Index (CFI) and the Term Funding Index (TFI). The CFI represents the proportion of the Group's core assets that are funded by customer deposits. Similarly, the TFI represents the proportion of the Group's core assets that are funded by term wholesale funding with a remaining term to maturity of greater than 12 months. These funding metrics remained stable over the March 2018 half year.

### Group Funding Metrics

	As at			
	31 Mar 18	30 Sep 17	31 Mar 17	
	%	%	%	%
Customer Funding Index	70	70	70	
Term Funding Index	23	23	22	
<b>Stable Funding Index</b>	<b>93</b>	<b>93</b>	<b>92</b>	
<b>Net Stable Funding Ratio</b>	<b>115</b>	<b>108</b>	<b>n/a</b>	

### Customer Funding

NAB's deposit strategy is to grow a stable and reliable deposit base informed by market conditions, funding requirements and customer relationships.

The Monthly Banking Statistics published by APRA show that for the 6 months ended 31 March 2018, NAB has grown Australian domestic household deposits by 2.7% (1.0x system), business deposits (excluding deposits from financial institutions) by 0.7% (0.2x system) and deposits from financial institutions have decreased by 5.2%.

### Term Wholesale Funding

Global funding conditions have been generally supportive during the 2018 financial year, with certain periods of increased market volatility. This has led to some widening in term funding issuance spreads. Tighter monetary policy

settings will continue to influence term funding markets in the near term.

The Group maintains a well-diversified funding profile across issuance type, currency, investor location and tenor, and raised \$13.7 billion during the March 2018 half year.

NAB raised \$12.2 billion, including \$8.7 billion senior unsecured and \$3.5 billion of secured funding (comprised of covered bonds and RMBS). BNZ raised \$1.5 billion during the March 2018 half year.

The weighted average maturity of term wholesale funding raised by the Group over the March 2018 half year was approximately 4.8 years to the first call date. The weighted average remaining maturity of the Group's term wholesale funding portfolio is 3.5 years.

### Term Wholesale Funding by Deal Type

	Half Year to		
	Mar 18	Sep 17	Mar 17
Senior Public Offshore	44%	49%	54%
Senior Public Domestic	16%	21%	12%
Secured Public Offshore	-	14%	20%
Secured Public Domestic	26%	-	-
Private Placements	14%	13%	7%
Subordinated Public Debt	-	3%	6%
Subordinated Private Debt <sup>(1)</sup>	-	-	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### Term Wholesale Funding by Currency

	Half Year to		
	Mar 18	Sep 17	Mar 17
USD	35%	47%	47%
AUD	44%	24%	20%
EUR	12%	14%	17%
GBP	3%	7%	6%
JPY	-	4%	7%
Other	6%	4%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

<sup>(1)</sup> Subordinated private debt comprised 0.3% of September 2017 half year term wholesale funding issuance.

## Capital Management and Funding (continued)

### Funding and Liquidity (continued)

#### Short-term Wholesale Funding

The Group maintained consistent access to international and domestic short-term wholesale funding markets during the March 2018 half year.

Global funding conditions have been broadly supportive since the start of the 2018 financial year. More recently, an increase in wholesale funding market volatility has led to an increase in short-term wholesale funding spreads across major markets. The Group however continued to maintain strong access to funding and liquidity at all times over the period.

In addition, repurchase agreements are primarily utilised to support markets and trading activities. Repurchase agreements entered into are materially offset by reverse repurchase agreements with similar tenors and are not used to fund NAB's core activities.

#### Liquid Asset Portfolio

The Group maintains well-diversified and high quality liquid asset portfolios to support regulatory and internal requirements in the various regions in which it operates. The market value of total on balance sheet liquid assets held as at 31 March 2018 was \$122 billion excluding contingent liquidity. This represents a reduction of \$2 billion from 30 September 2017 and a reduction of \$9 billion from 31 March 2017.

Liquid asset holdings include \$113 billion of regulatory liquid assets (consisting of both High Quality Liquid Assets (HQLA) and Committed Liquidity Facility (CLF) eligible assets) as at 31 March 2018.

In addition, the Group holds internal securitisation pools of Residential Mortgage Backed Securities (RMBS) as a source of contingent liquidity and to support the CLF. Unencumbered internal RMBS held at 31 March 2018 was \$45 billion (post applicable central bank deduction).

Liquid assets and Internal RMBS (net of applicable regulatory deductions) that qualify for inclusion in the Group's LCR were on average \$146 billion for the quarter ending 31 March 2018 resulting in an average Group LCR of 127%.

#### Credit Ratings

The Group closely monitors rating agency developments and regularly communicates with the major rating agencies. Entities in the Group are rated by S&P Global Ratings (S&P), Moody's Investors Service (Moody's) and Fitch Ratings (Fitch).

#### National Australia Bank Credit Ratings

	<b>Long Term</b>	<b>Short Term</b>	<b>Outlook</b>
S&P Global Ratings	AA-	A-1+	Negative
Moody's Investors Service	Aa3	P-1	Stable
Fitch Ratings	AA-	F1+	Stable

**Section 4**

**Review of Divisional Operations and Results**

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## Divisional Performance Summary

	<b>Business and Private Banking</b>	<b>Consumer Banking and Wealth</b>	<b>Corporate and Institutional Banking</b>	<b>New Zealand Banking</b>	<b>Corporate Functions and Other<sup>(1)</sup></b>	<b>Group Cash Earnings</b>
<b>Half Year ended 31 March 2018</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Net interest income	2,756	2,014	946	828	206	<b>6,750</b>
Other operating income <sup>(2)</sup>	532	770	737	263	41	<b>2,343</b>
Net operating income	3,288	2,784	1,683	1,091	247	<b>9,093</b>
Operating expenses (excluding restructuring-related costs)	(1,091)	(1,510)	(637)	(426)	(325)	<b>(3,989)</b>
Restructuring-related costs <sup>(3)</sup>	-	-	-	-	(755)	<b>(755)</b>
Underlying profit	2,197	1,274	1,046	665	(833)	<b>4,349</b>
Credit impairment (charge) / write-back	(74)	(133)	7	(38)	(135)	<b>(373)</b>
<b>Cash earnings / (deficit) before tax and distributions</b>	<b>2,123</b>	<b>1,141</b>	<b>1,053</b>	<b>627</b>	<b>(968)</b>	<b>3,976</b>
Income tax expense	(641)	(337)	(275)	(175)	260	<b>(1,168)</b>
<b>Cash earnings / (deficit) before distributions</b>	<b>1,482</b>	<b>804</b>	<b>778</b>	<b>452</b>	<b>(708)</b>	<b>2,808</b>
Distributions	-	-	-	-	(49)	<b>(49)</b>
<b>Cash earnings / (deficit)</b>	<b>1,482</b>	<b>804</b>	<b>778</b>	<b>452</b>	<b>(757)</b>	<b>2,759</b>
<b>Cash earnings / (deficit) excluding restructuring-related costs</b>	<b>1,482</b>	<b>804</b>	<b>778</b>	<b>452</b>	<b>(227)</b>	<b>3,289</b>
<b>Key balance sheet items (\$bn)</b>						<b>Total</b>
Gross loans and acceptances	196.4	213.9	85.5	75.1	0.3	<b>571.2</b>
Customer deposits	132.7	118.5	89.6	54.8	12.8	<b>408.4</b>

<sup>(1)</sup> Corporate Functions and Other includes Group Eliminations.<sup>(2)</sup> Consumer Banking and Wealth includes net investment income.<sup>(3)</sup> Refer to Note 4 Operating expenses for further information.

## Divisional Performance Summary

	<b>Business and Private Banking</b>	<b>Consumer Banking and Wealth</b>	<b>Corporate and Institutional Banking</b>	<b>New Zealand Banking</b>	<b>Corporate Functions and Other<sup>(1)</sup></b>	<b>Group Cash Earnings</b>
<b>Half Year ended 30 September 2017</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Net interest income	2,693	2,009	1,019	810	242	<b>6,773</b>
Other operating income <sup>(2)</sup>	536	780	607	266	64	<b>2,253</b>
Net operating income	3,229	2,789	1,626	1,076	306	<b>9,026</b>
Operating expenses	(1,046)	(1,445)	(605)	(419)	(335)	<b>(3,850)</b>
Underlying profit / (loss)	2,183	1,344	1,021	657	(29)	<b>5,176</b>
Credit impairment charge	(82)	(105)	(23)	(29)	(177)	<b>(416)</b>
<b>Cash earnings / (deficit) before tax and distributions</b>	<b>2,101</b>	<b>1,239</b>	<b>998</b>	<b>628</b>	<b>(206)</b>	<b>4,760</b>
Income tax expense	(628)	(370)	(254)	(175)	64	<b>(1,363)</b>
<b>Cash earnings / (deficit) before distributions</b>	<b>1,473</b>	<b>869</b>	<b>744</b>	<b>453</b>	<b>(142)</b>	<b>3,397</b>
Distributions	-	-	-	-	(49)	<b>(49)</b>
<b>Cash earnings / (deficit)</b>	<b>1,473</b>	<b>869</b>	<b>744</b>	<b>453</b>	<b>(191)</b>	<b>3,348</b>
<b>Key balance sheet items (\$bn)</b>						
Gross loans and acceptances	193.7	209.4	88.0	72.8	1.2	<b>565.1</b>
Customer deposits	130.0	116.3	97.0	50.7	13.6	<b>407.6</b>

<sup>(1)</sup> Corporate Functions and Other includes Group Eliminations.<sup>(2)</sup> Consumer Banking and Wealth includes net investment income.

## Divisional Performance Summary

	<b>Business and Private Banking</b>	<b>Consumer Banking and Wealth</b>	<b>Corporate and Institutional Banking</b>	<b>New Zealand Banking</b>	<b>Corporate Functions and Other<sup>(1)</sup></b>	<b>Group Cash Earnings</b>
<b>Half Year ended 31 March 2017</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Net interest income	2,564	1,875	953	776	225	<b>6,393</b>
Other operating income <sup>(2)</sup>	526	817	761	264	108	<b>2,476</b>
Net operating income	3,090	2,692	1,714	1,040	333	<b>8,869</b>
Operating expenses	(1,038)	(1,465)	(631)	(408)	(243)	<b>(3,785)</b>
Underlying profit	2,052	1,227	1,083	632	90	<b>5,084</b>
Credit impairment charge	(98)	(162)	(14)	(38)	(82)	<b>(394)</b>
<b>Cash earnings before tax and distributions</b>	<b>1,954</b>	<b>1,065</b>	<b>1,069</b>	<b>594</b>	<b>8</b>	<b>4,690</b>
Income tax expense	(586)	(301)	(278)	(165)	(17)	<b>(1,347)</b>
<b>Cash earnings / (deficit) before distributions</b>	<b>1,368</b>	<b>764</b>	<b>791</b>	<b>429</b>	<b>(9)</b>	<b>3,343</b>
Distributions	-	-	-	-	(49)	<b>(49)</b>
<b>Cash earnings / (deficit)</b>	<b>1,368</b>	<b>764</b>	<b>791</b>	<b>429</b>	<b>(58)</b>	<b>3,294</b>
<b>Key balance sheet items (\$bn)</b>						<b>Total</b>
Gross loans and acceptances	190.5	203.0	85.6	69.7	1.2	<b>550.0</b>
Customer deposits	127.0	112.7	93.7	48.5	17.7	<b>399.6</b>

<sup>(1)</sup> Corporate Functions and Other includes Group Eliminations.<sup>(2)</sup> Consumer Banking and Wealth includes net investment income.

## Business and Private Banking

Business and Private Banking focusses on serving priority small and medium (SME) customers via the NAB Business franchise and specialist services in key segments including Agriculture, Health, Government, Education, Community and Franchise. The division also serves NAB's micro and small business customers and includes Private Banking and JBWere.

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Net interest income	2,756	2,693	2,564	2.3	7.5
Other operating income	532	536	526	(0.7)	1.1
<b>Net operating income</b>	<b>3,288</b>	<b>3,229</b>	<b>3,090</b>	<b>1.8</b>	<b>6.4</b>
Operating expenses	(1,091)	(1,046)	(1,038)	4.3	5.1
<b>Underlying profit</b>	<b>2,197</b>	<b>2,183</b>	<b>2,052</b>	<b>0.6</b>	<b>7.1</b>
Credit impairment charge	(74)	(82)	(98)	(9.8)	(24.5)
<b>Cash earnings before tax</b>	<b>2,123</b>	<b>2,101</b>	<b>1,954</b>	<b>1.0</b>	<b>8.6</b>
Income tax expense	(641)	(628)	(586)	2.1	9.4
<b>Cash earnings</b>	<b>1,482</b>	<b>1,473</b>	<b>1,368</b>	<b>0.6</b>	<b>8.3</b>

### Volumes (\$bn)

Housing lending	90.6	90.4	89.7	0.2	1.0
Business lending	102.4	100.0	97.8	2.4	4.7
Other lending	3.4	3.3	3.0	3.0	13.3
Gross loans and acceptances	196.4	193.7	190.5	1.4	3.1
Average interest earning assets	185.9	184.7	180.8	0.6	2.8
Total assets	196.2	192.8	189.8	1.8	3.4
Customer deposits	132.7	130.0	127.0	2.1	4.5
Total risk-weighted assets	114.4	112.2	111.1	2.0	3.0

### Performance Measures

Cash earnings on average assets	1.53%	1.53%	1.46%	-	7 bps
Cash earnings on average risk-weighted assets	2.64%	2.62%	2.45%	2 bps	19 bps
Net interest margin	2.97%	2.91%	2.84%	6 bps	13 bps
Cost to income ratio	33.2%	32.4%	33.6%	80 bps	(40 bps)

Asset Quality	Half Year to			Mar 18 v Sep 17	Mar 18 v Mar 17
	Mar 18	Sep 17	Mar 17		
90+DPD assets plus gross impaired assets to gross loans and acceptances	0.75%	0.76%	0.79%	(1 bp)	(4 bps)
Credit impairment charge to gross loans and acceptances (annualised) <sup>(1)</sup>	0.08%	0.08%	0.10%	-	(2 bps)

<sup>(1)</sup> Ratios represent half year ratio annualised.

## Business and Private Banking

## Financial Analysis

## March 2018 v March 2017

Cash earnings increased by \$114 million or 8.3% driven by balance sheet growth and repricing benefits in the lending portfolio, combined with lower credit impairment charges, partly offset by higher operating expenses largely from continued investment in the business.

Key movements	Key drivers
<b>Net interest income up \$192m, 7.5%</b>	<ul style="list-style-type: none"> <li>Average interest earnings assets increased by \$5.1 billion or 2.8% due to growth in both housing and business lending. Business lending volumes were driven by both NAB Business and Specialised Banking as NAB continues to leverage its deep industry specialisations and strong market position.</li> <li>Customer deposits increased by \$5.7 billion or 4.5% with growth across all key products, reflecting a continued focus on quality of deposits.</li> <li>Net interest margin increased by 13 basis points mainly due to lending repricing benefits and lower funding costs. This was partially offset by the impact of the bank levy.</li> </ul>
<b>Other operating income up \$6m, 1.1%</b>	<ul style="list-style-type: none"> <li>Higher lending fees from continued improvement in fee collection rates combined with higher JBWere income, partially offset by a reduction in business transaction account fees.</li> <li>Lower income due to the sale of National Australia Trustees Limited on 30 September 2017.</li> </ul>
<b>Operating expenses up \$53m, 5.1%</b>	<ul style="list-style-type: none"> <li>Continued investment in technology and customer capabilities, partially offset by productivity savings including digitisation, procurement savings and simplifying the business.</li> </ul>
<b>Credit impairment charge down \$24m, 24.5%</b>	<ul style="list-style-type: none"> <li>Asset quality remains sound with 90+ DPD and impaired assets to gross loans and advances decreasing 4 basis points largely driven by a reduction in impaired assets, partly offset by an increase in 90+ DPD assets mainly driven by the mortgage portfolio.</li> <li>Lower credit impairment charges mainly driven by a reduction in the number of individual impaired exposures.</li> </ul>
<b>Risk-weighted assets up \$3.3bn, 3.0%</b>	<ul style="list-style-type: none"> <li>Increase in gross loans and advances, partially offset by improved credit quality and optimisation.</li> </ul>

## March 2018 v September 2017

Cash earnings increased by \$9 million or 0.6% driven by balance sheet growth and repricing benefits in the lending portfolio, combined with lower credit impairment charges, largely offset by higher operating expenses with continued investment in the business.

Key movements	Key drivers
<b>Net interest income up \$63m, 2.3%</b>	<ul style="list-style-type: none"> <li>Average interest earnings assets increased by \$1.2 billion or 0.6% due to growth in business lending driven by both NAB Business and Specialised Banking as NAB continues to leverage its deep industry specialisations and strong market position.</li> <li>Customer deposits increased by \$2.7 billion or 2.1% with growth across all key products, reflecting a continued focus on quality of deposits.</li> <li>Net interest margin increased by 6 basis points due to lending repricing benefits and lower funding costs, partially offset by the impact of the bank levy.</li> </ul>
<b>Other operating income down \$4m, 0.7%</b>	<ul style="list-style-type: none"> <li>Lower income due to the sale of National Australia Trustees Limited on 30 September 2017.</li> </ul>
<b>Operating expenses up \$45m, 4.3%</b>	<ul style="list-style-type: none"> <li>Continued investment in technology and customer capabilities, partially offset by productivity savings including digitisation, procurement savings and simplifying the business.</li> </ul>
<b>Credit impairment charge down \$8m, 9.8%</b>	<ul style="list-style-type: none"> <li>Asset quality remains sound with 90+ DPD and impaired assets to gross loans and advances decreasing by 1 basis point largely driven by a reduction in impaired assets, partially offset by an increase in 90+ DPD assets mainly driven by the mortgage portfolio.</li> <li>Lower credit impairment charges mainly driven by a reduction in the number of individual impaired exposures.</li> </ul>
<b>Risk-weighted assets up \$2.2bn, 2.0%</b>	<ul style="list-style-type: none"> <li>Increase in gross loans and advances, partially offset by improved credit quality and optimisation.</li> </ul>

## Consumer Banking and Wealth

Consumer Banking and Wealth comprises the NAB and UBank consumer banking divisions and the Wealth divisions of Advice, Asset Management and Superannuation. The division provides customers with access to independent advisers, including mortgage brokers and the financial planning network of self-employed, aligned and salaried advisers in Australia.

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Net interest income	2,014	2,009	1,875	0.2	7.4
Net investment income	486	488	499	(0.4)	(2.6)
Other operating income	284	292	318	(2.7)	(10.7)
<b>Net operating income</b>	<b>2,784</b>	<b>2,789</b>	<b>2,692</b>	<b>(0.2)</b>	<b>3.4</b>
Operating expenses	(1,510)	(1,445)	(1,465)	4.5	3.1
<b>Underlying profit</b>	<b>1,274</b>	<b>1,344</b>	<b>1,227</b>	<b>(5.2)</b>	<b>3.8</b>
Credit impairment charge	(133)	(105)	(162)	26.7	(17.9)
<b>Cash earnings before tax</b>	<b>1,141</b>	<b>1,239</b>	<b>1,065</b>	<b>(7.9)</b>	<b>7.1</b>
Income tax expense	(337)	(370)	(301)	(8.9)	12.0
<b>Cash earnings</b>	<b>804</b>	<b>869</b>	<b>764</b>	<b>(7.5)</b>	<b>5.2</b>

### Volumes (\$bn)

	Mar 18	Sep 17	Mar 17	Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
Housing lending	207.0	202.5	195.8	2.2	5.7
Other lending	6.9	6.9	7.2	-	(4.2)
Gross loans and acceptances	213.9	209.4	203.0	2.1	5.4
Average interest earning assets	196.0	190.5	185.5	2.9	5.7
Total assets	223.4	217.6	211.3	2.7	5.7
Customer deposits	118.5	116.3	112.7	1.9	5.1
Total risk-weighted assets	78.3	78.2	65.8	0.1	19.0

### Performance Measures

	Mar 18	Sep 17	Mar 17	Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
Cash earnings on average assets	0.74%	0.83%	0.75%	(9 bps)	(1 bp)
Cash earnings on average risk-weighted assets (Consumer Banking)	1.78%	2.06%	1.92%	(28 bps)	(14 bps)
Net interest margin (Consumer Banking)	2.06%	2.10%	2.03%	(4 bps)	3 bps
Cost to income ratio (Consumer Banking)	52.3%	49.7%	51.2%	260 bps	110 bps
Cost to income ratio (Wealth)	63.0%	61.7%	67.5%	130 bps	(450 bps)
Funds under management and administration (FUM/A) (spot) (\$m)	116,090	112,935	110,726	2.8	4.8
Funds under management and administration (FUM/A) (average) (\$m)	116,695	112,171	108,042	4.0	8.0
Assets under management (AUM) (spot) (\$m)	199,309	195,258	194,157	2.1	2.7
Assets under management (AUM) (average) (\$m)	199,422	195,173	190,136	2.2	4.9
Investment income to average FUM/A (bps) (Wealth)	59	61	62	(2 bps)	(3 bps)
Investment income to average AUM (bps) (Wealth)	14	15	17	(1 bp)	(3 bps)

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18	Sep 17	Mar 17		
<b>Asset Quality</b>					
90+DPD assets plus gross impaired assets to gross loans and acceptances	0.80%	0.74%	0.75%	6 bps	5 bps
Credit impairment charge to gross loans and acceptances (annualised) <sup>(1)</sup>	0.12%	0.10%	0.16%	2 bps	(4 bps)

<sup>(1)</sup> Ratios represent half year ratio annualised.

## Consumer Banking and Wealth

## Financial Analysis

## March 2018 v March 2017

Cash earnings increased by \$40 million or 5.2% driven by balance sheet growth and repricing, partially offset by increased operating expenses as the Group continues to invest in the business and the impact of the bank levy.

Key movements	Key drivers
<b>Net interest income up \$139m, 7.4%</b>	<ul style="list-style-type: none"> <li>Average interest earning assets increased by \$10.5 billion or 5.7% driven by growth in housing lending.</li> <li>Customer deposits increased by \$5.8 billion or 5.1% through an increase mainly in on demand, term deposits and Home Loan offset accounts.</li> <li>Net interest margin improved by 3 basis points driven by repricing benefits and lower funding costs, partially offset by the impact of the bank levy and product mix due to customers switching to Fixed Rate and Principal and Interest home lending products, combined with competitive pressures.</li> </ul>
<b>Net investment income down \$13m, 2.6%</b>	<ul style="list-style-type: none"> <li>Lower income from sales of asset management businesses in prior periods.</li> <li>Partially offset by revenue growth from higher FUM/A and AUM as a result of increased investment earnings driven by stronger investment markets.</li> <li>Average FUM/A increased \$8.7 billion or 8.0% and average AUM increased by \$9.3 billion or 4.9% driven by stronger investment markets.</li> </ul>
<b>Other operating income down \$34m, 10.7%</b>	<ul style="list-style-type: none"> <li>Lower fee income driven by the waiving of ATM fees combined with lower international money transfer fees.</li> <li>Lower share of an associate's profit.</li> </ul>
<b>Operating expenses up \$45m, 3.1%</b>	<ul style="list-style-type: none"> <li>Continued investment in new capabilities including customer experience, the new payment platform and technology resilience and transformation.</li> <li>Partially offset by lower costs as a result of productivity initiatives and change in mix of investment spend in the Wealth business.</li> </ul>
<b>Credit impairment charge down \$29m, 17.9%</b>	<ul style="list-style-type: none"> <li>Lower due to stability in delinquencies across the unsecured portfolio.</li> <li>90+ DPD assets plus gross impaired assets to gross loans and acceptances increased 5 basis points to 0.80% reflecting an increase in mortgages delinquencies, predominantly in Western Australia, New South Wales and Victoria.</li> </ul>
<b>Risk-weighted assets up \$12.5bn, 19.0%</b>	<ul style="list-style-type: none"> <li>Increased due to mortgage model changes, combined with housing lending volume growth.</li> </ul>

## March 2018 v September 2017

Cash earnings decreased by \$65 million or 7.5%, due to increased operating expenses as the Group continues to invest in new capabilities, combined with seasonally higher credit impairment charges and the impact of the bank levy. This has been partially offset by higher revenue from balance sheet growth and repricing.

Key movements	Key drivers
<b>Net interest income up \$5m, 0.2%</b>	<ul style="list-style-type: none"> <li>Average interest earning assets increased by \$5.5 billion or 2.9% driven by growth in housing lending.</li> <li>Customer deposits increased by \$2.2 billion or 1.9% through an increase mainly in on demand savings, Home Loan offset accounts and term deposits.</li> <li>Net interest margin declined by 4 basis points, driven by the impact of the bank levy, a change in housing lending mix and competitive pressures, partially offset by lower funding costs and repricing benefits.</li> </ul>
<b>Net investment income down \$2m, 0.4%</b>	<ul style="list-style-type: none"> <li>Lower income from the sale of an asset management business in the prior period.</li> <li>Partially offset by revenue growth from higher FUM/A and AUM as a result of increased investment earnings driven by stronger investment markets.</li> <li>Average FUM/A increased \$4.5 billion or 4.0% and average AUM increased \$4.2 billion or 2.2% driven by stronger investment markets.</li> </ul>
<b>Other operating income down \$8m, 2.7%</b>	<ul style="list-style-type: none"> <li>Seasonally lower foreign exchange trading revenue, combined with the waiving of ATM fees.</li> </ul>
<b>Operating expenses up \$65m, 4.5%</b>	<ul style="list-style-type: none"> <li>Continued investment in new capabilities including customer experience, the new payment platform and technology resilience and transformation.</li> <li>Partially offset by lower costs as a result of productivity initiatives.</li> </ul>
<b>Credit impairment charge up \$28m, 26.7%</b>	<ul style="list-style-type: none"> <li>Seasonally higher charges for the unsecured lending portfolio.</li> <li>90+ DPD assets plus gross impaired assets to gross loans and acceptances increased 6 basis points over the half year to 0.80%, reflecting an increase in mortgage delinquencies, predominantly in Western Australia, New South Wales and Victoria.</li> </ul>
<b>Risk-weighted assets up \$0.1bn, 0.1%</b>	<ul style="list-style-type: none"> <li>Increased due to housing lending volume growth.</li> </ul>

Consumer Banking and Wealth

Consumer Banking

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Net interest income	2,014	2,009	1,875	0.2	7.4
Other operating income	262	281	284	(6.8)	(7.7)
<b>Net operating income</b>	<b>2,276</b>	<b>2,290</b>	<b>2,159</b>	<b>(0.6)</b>	<b>5.4</b>
Operating expenses	(1,190)	(1,137)	(1,105)	4.7	7.7
<b>Underlying profit</b>	<b>1,086</b>	<b>1,153</b>	<b>1,054</b>	<b>(5.8)</b>	<b>3.0</b>
Credit impairment charge	(133)	(105)	(162)	26.7	(17.9)
<b>Cash earnings before tax</b>	<b>953</b>	<b>1,048</b>	<b>892</b>	<b>(9.1)</b>	<b>6.8</b>
Income tax expense	(285)	(313)	(268)	(8.9)	6.3
<b>Cash earnings</b>	<b>668</b>	<b>735</b>	<b>624</b>	<b>(9.1)</b>	<b>7.1</b>

Wealth

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Net investment income	486	488	499	(0.4)	(2.6)
Other operating income	22	11	34	large	(35.3)
<b>Net operating income</b>	<b>508</b>	<b>499</b>	<b>533</b>	<b>1.8</b>	<b>(4.7)</b>
Operating expenses	(320)	(308)	(360)	3.9	(11.1)
<b>Cash earnings before tax</b>	<b>188</b>	<b>191</b>	<b>173</b>	<b>(1.6)</b>	<b>8.7</b>
Income tax expense	(52)	(57)	(33)	(8.8)	57.6
<b>Cash earnings</b>	<b>136</b>	<b>134</b>	<b>140</b>	<b>1.5</b>	<b>(2.9)</b>



## Corporate and Institutional Banking

Corporate and Institutional Banking provides a range of lending and transactional products and services related to financial and debt capital markets, specialised capital, custody and alternative investments. The division serves its customers in Australia and globally through branches in the US, UK and Asia with specialised industry relationships and product teams.

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Net interest income	946	1,019	953	(7.2)	(0.7)
Other operating income	737	607	761	21.4	(3.2)
<b>Net operating income</b>	<b>1,683</b>	<b>1,626</b>	<b>1,714</b>	<b>3.5</b>	<b>(1.8)</b>
Operating expenses	(637)	(605)	(631)	5.3	1.0
<b>Underlying profit</b>	<b>1,046</b>	<b>1,021</b>	<b>1,083</b>	<b>2.4</b>	<b>(3.4)</b>
Credit impairment write-back / (charge)	7	(23)	(14)	large	large
<b>Cash earnings before tax</b>	<b>1,053</b>	<b>998</b>	<b>1,069</b>	<b>5.5</b>	<b>(1.5)</b>
Income tax expense	(275)	(254)	(278)	8.3	(1.1)
<b>Cash earnings</b>	<b>778</b>	<b>744</b>	<b>791</b>	<b>4.6</b>	<b>(1.6)</b>

**Net operating income**

Lending and deposits income	1,048	1,012	973	3.6	7.7
Markets income (ex derivative valuation adjustments)	436	427	476	2.1	(8.4)
Derivative valuation adjustments <sup>(1)</sup>	(23)	(22)	46	4.5	large
Other income	222	209	219	6.2	1.4
<b>Total net operating income</b>	<b>1,683</b>	<b>1,626</b>	<b>1,714</b>	<b>3.5</b>	<b>(1.8)</b>

**Volumes (\$bn)**

Corporate Finance <sup>(2)</sup>	26.9	26.8	25.5	0.4	5.5
Business lending	58.1	58.7	57.6	(1.0)	0.9
Other lending	0.5	2.5	2.5	(80.0)	(80.0)
Gross loans and acceptances	85.5	88.0	85.6	(2.8)	(0.1)
Average interest earning assets	239.2	242.9	235.1	(1.5)	1.7
Total assets	250.1	259.3	258.2	(3.5)	(3.1)
Customer deposits	89.6	97.0	93.7	(7.6)	(4.4)
Total risk-weighted assets	114.8	114.7	114.2	0.1	0.5

**Performance Measures**

Cash earnings on average assets	0.58%	0.53%	0.58%	5 bps	-
Cash earnings on average risk-weighted assets	1.36%	1.30%	1.30%	6 bps	6 bps
Net interest margin	0.79%	0.84%	0.81%	(5 bps)	(2 bps)
Net interest margin (ex markets)	1.64%	1.58%	1.53%	6 bps	11 bps
Cost to income ratio	37.8%	37.2%	36.8%	60 bps	100 bps

Asset Quality	Half Year to			Mar 18 v Sep 17	Mar 18 v Mar 17
	Mar 18	Sep 17	Mar 17		
90+DPD assets plus gross impaired assets to gross loans and acceptances	0.39%	0.34%	0.53%	5 bps	(14 bps)
Credit impairment charge to gross loans and acceptances (annualised) <sup>(3)</sup>	(0.02%)	0.05%	0.03%	(7 bps)	(5 bps)

<sup>(1)</sup> Derivative valuation adjustments consist of credit valuation adjustments and funding valuation adjustments.

<sup>(2)</sup> Corporate Finance represents the previously named Capital Financing business.

<sup>(3)</sup> Ratios represent half year ratio annualised.

## Corporate and Institutional Banking

### Financial Analysis

#### March 2018 v March 2017

Cash earnings decreased by \$13 million or 1.6% driven by lower trading performance, the sale of the Private Wealth business in Asia and the impact of the bank levy. Expenses have been well managed with increased spend on project investment, largely offset by productivity savings.

Key movements	Key drivers
<b>Net interest income down \$7m, 0.7%</b>	<ul style="list-style-type: none"> <li>Includes a decrease of \$40 million which is offset by movements in economic hedges in other operating income.</li> <li>Underlying increase of \$33 million reflects higher margins (ex markets), partially offset by weaker Markets income.</li> <li>Net interest margin (ex markets) increased by 11 basis points to 1.64% benefitting from continued focus on portfolio returns resulting in improved lending margins, combined with improved funding costs, partially offset by the bank levy.</li> <li>Gross loans and acceptances were broadly flat reflecting \$1.4 billion growth in higher margin Corporate Finance lending combined with a \$2 billion reduction in other lending (primarily mortgages) due to the sale of the Private Wealth business in Asia.</li> <li>Customer deposits declined by \$4.1 billion or 4.4% reflecting the sale of the Private Wealth business in Asia and continued focus on the quality of institutional deposits.</li> </ul>
<b>Other operating income down \$24m, 3.2%</b>	<ul style="list-style-type: none"> <li>Includes an increase of \$40 million due to movements of economic hedges offset in net interest income.</li> <li>Underlying decrease of \$64 million due to lower trading income, predominantly relating to interest rate derivatives and fixed income securities combined with unfavourable movements in derivative valuation adjustments, partially offset by higher Corporate Finance fees and increased sales of customer risk management products.</li> </ul>
<b>Operating expenses up \$6m, 1.0%</b>	<ul style="list-style-type: none"> <li>Increased investment in technology expenditure to simplify systems, innovate and implement regulatory changes, largely offset by productivity savings from restructuring activities and the sale of the Private Wealth business in Asia.</li> </ul>
<b>Credit impairment charge down \$21m</b>	<ul style="list-style-type: none"> <li>Credit quality improvement and lower charges relating to the impairment of a small number of exposures.</li> </ul>
<b>Risk-weighted assets up \$0.6bn, 0.5%</b>	<ul style="list-style-type: none"> <li>Risk-weighted assets remained stable reflecting continued returns focussed portfolio management.</li> </ul>

#### March 2018 v September 2017

Cash earnings increased \$34 million or 4.6% driven by fees from increased deal activity, partially offset by the sale of the Private Wealth business in Asia, impact of the bank levy and increased investment spend on technology.

Key movements	Key drivers
<b>Net interest income down \$73m, 7.2%</b>	<ul style="list-style-type: none"> <li>Includes a decrease of \$31 million which is offset by movements in economic hedges in other operating income.</li> <li>Underlying decrease of \$42 million reflects weaker Markets income, lower gross loans and acceptances, partially offset by higher margins (ex markets).</li> <li>Gross loans and acceptances declined by \$2.5 billion or 2.8% mainly due to the sale of the Private Wealth business in Asia (primarily mortgages).</li> <li>Net interest margin (ex markets) increased by 6 basis points to 1.64% mainly due to improved funding costs, partially offset by the full period impact of the bank levy.</li> <li>Customer deposits declined \$7.4 billion or 7.6% reflecting the sale of the Private Wealth business in Asia combined with the continued focus on the quality of institutional deposits.</li> </ul>
<b>Other operating income up \$130m, 21.4%</b>	<ul style="list-style-type: none"> <li>Includes an increase of \$31 million due to movements of economic hedges offset in net interest income.</li> <li>Underlying increase of \$99 million due to higher sales of customer risk management products and increased Corporate Finance fees.</li> </ul>
<b>Operating expenses up \$32m, 5.3%</b>	<ul style="list-style-type: none"> <li>Increased investment in technology expenditure to simplify systems, innovate and implement regulatory changes, partially offset by productivity savings from restructuring activities and the sale of the Private Wealth business in Asia.</li> </ul>
<b>Credit impairment charge down \$30m</b>	<ul style="list-style-type: none"> <li>Credit quality improvement and lower charges relating to the impairment of a small number of exposures.</li> </ul>
<b>Risk-weighted assets up \$0.1bn, 0.1%</b>	<ul style="list-style-type: none"> <li>Risk-weighted assets remained stable reflecting continued returns focussed portfolio management.</li> </ul>

## New Zealand Banking

New Zealand Banking comprises the Retail, Business, Agribusiness, Corporate and Insurance franchises and Markets Sales operations in New Zealand, operating under the 'Bank of New Zealand' brand. It excludes Bank of New Zealand's Markets Trading operations.

Results presented in local currency. See page 48 for results in Australian dollars and page 97 for foreign exchange rates.

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Net interest income	905	869	823	4.1	10.0
Other operating income	287	285	280	0.7	2.5
<b>Net operating income</b>	<b>1,192</b>	<b>1,154</b>	<b>1,103</b>	<b>3.3</b>	<b>8.1</b>
Operating expenses	(465)	(449)	(433)	3.6	7.4
<b>Underlying profit</b>	<b>727</b>	<b>705</b>	<b>670</b>	<b>3.1</b>	<b>8.5</b>
Credit impairment charge	(41)	(31)	(40)	32.3	2.5
<b>Cash earnings before tax</b>	<b>686</b>	<b>674</b>	<b>630</b>	<b>1.8</b>	<b>8.9</b>
Income tax expense	(192)	(188)	(175)	2.1	9.7
<b>Cash earnings</b>	<b>494</b>	<b>486</b>	<b>455</b>	<b>1.6</b>	<b>8.6</b>

## Volumes (\$bn)

	Mar 18	Sep 17	Mar 17	Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
Housing lending	38.2	37.4	36.2	2.1	5.5
Business lending	40.3	40.4	38.7	(0.2)	4.1
Other lending	1.3	1.3	1.3	-	-
Gross loans and acceptances	79.8	79.1	76.2	0.9	4.7
Average interest earning assets	80.9	78.6	76.6	2.9	5.6
Total assets	84.0	82.6	79.8	1.7	5.3
Customer deposits	58.2	55.1	53.0	5.6	9.8
Total risk-weighted assets	59.0	57.8	57.7	2.1	2.3

## Performance Measures

	Mar 18	Sep 17	Mar 17	Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
Cash earnings on average assets	1.19%	1.20%	1.16%	(1 bp)	3 bps
Cash earnings on average risk-weighted assets	1.71%	1.68%	1.59%	3 bps	12 bps
Net interest margin	2.24%	2.21%	2.15%	3 bps	9 bps
Cost to income ratio	39.0%	38.9%	39.3%	10 bps	(30 bps)
FTEs (spot)	4,676	4,732	4,788	(56)	(112)

Asset Quality	Half Year to			Mar 18 v Sep 17	Mar 18 v Mar 17
	Mar 18	Sep 17	Mar 17		
90+DPD assets plus gross impaired assets to gross loans and acceptances <sup>(1)</sup>	0.62%	0.79%	1.61%	(17 bps)	(99 bps)
Credit impairment charge to gross loans and acceptances (annualised) <sup>(2)</sup>	0.10%	0.08%	0.10%	2 bps	-

Market Share <sup>(3)</sup>	As at		
	31 Mar 18	30 Sep 17	31 Mar 17
Housing lending	15.6%	15.6%	15.6%
Agribusiness	22.6%	22.5%	22.3%
Business lending	23.7%	23.8%	23.5%
Retail deposits <sup>(4)</sup>	18.5%	18.0%	17.9%

Distribution	As at		
	31 Mar 18	30 Sep 17	31 Mar 17
Number of retail branches	155	158	161
Number of ATMs	618	549	488
Number of internet banking customers (no. '000s) <sup>(5)</sup>	712	695	685

<sup>(1)</sup> Gross impaired assets include NZ\$81 million, (September 2017: NZ\$222 million, March 2017: NZ\$795 million) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

<sup>(2)</sup> Ratios represent the half year ratio annualised.

<sup>(3)</sup> Source: RBNZ, based on a three month rolling weighted average.

<sup>(4)</sup> Prior periods have been restated due to changes in reporting classification.

<sup>(5)</sup> Prior periods have been restated due to change in definition.

## New Zealand Banking

Financial Analysis (in local currency)

### March 2018 v March 2017

Cash earnings increased by NZ\$39 million or 8.6% driven by higher revenue, partly offset by higher expenses.

Key movements	Key drivers
<b>Net interest income up \$82m, 10.0%</b>	<ul style="list-style-type: none"> <li>Average interest earning assets increased by \$4.3 billion or 5.6% due to growth in housing supported by growth in the broker channel, as well as strong growth in business lending which outperformed system growth in the second half of 2017.</li> <li>Customer deposits increased by \$5.2 billion or 9.8% driven by strong term deposit growth.</li> <li>Net interest margin increased by 9 basis points mainly due to improved housing and business lending margins and improved funding costs, partially offset by lower earnings on capital as a result of a low interest rate environment.</li> </ul>
<b>Other operating income up \$7m, 2.5%</b>	<ul style="list-style-type: none"> <li>Increased line fee income partly due to an increase in lending activity in the September 2017 half year.</li> <li>Improved revenue in the credit card portfolio.</li> <li>Launch of the Private Wealth Series managed investment scheme.</li> </ul>
<b>Operating expenses up \$32m, 7.4%</b>	<ul style="list-style-type: none"> <li>Continued investment in digital capabilities to enhance frontline efficiency and customer experience, partially offset by productivity savings across the business.</li> <li>Depreciation and amortisation charges associated with investment in priority segments and digital.</li> </ul>
<b>Credit impairment charge up \$1m, 2.5%</b>	<ul style="list-style-type: none"> <li>Includes collective provision Forward Looking Adjustments (FLAs) for targeted sectors, partially offset by improvement in the dairy portfolio.</li> <li>90+DPD assets plus gross impaired assets to gross loans and acceptances decreased by 99 basis points mainly due to a significant decrease in gross impaired assets relating to dairy exposures.</li> </ul>
<b>Total risk-weighted assets up \$1.3bn, 2.3%</b>	<ul style="list-style-type: none"> <li>Growth in exposures, partially offset by improvement in the quality of the portfolio.</li> </ul>

### March 2018 v September 2017

Cash earnings increased by NZ\$8 million or 1.6% driven by improved revenue, partly offset by higher expenses and higher credit impairment charges.

Key movements	Key drivers
<b>Net interest income up \$36m, 4.1%</b>	<ul style="list-style-type: none"> <li>Average interest earning assets increased by \$2.3 billion or 2.9% with subdued system growth in both housing and business lending.</li> <li>Customer deposits increased by \$3.1 billion or 5.6% driven by strong growth across all deposit products, outperforming system growth.</li> <li>Net interest margin increased by 3 basis points to 2.24% due to improved business and housing lending margins.</li> </ul>
<b>Other operating income up \$2m, 0.7%</b>	<ul style="list-style-type: none"> <li>Increased line fee income, partly due an increase in lending activity in the September 2017 half year.</li> <li>Higher revenue from the life insurance business.</li> </ul>
<b>Operating expenses up \$16m, 3.6%</b>	<ul style="list-style-type: none"> <li>Continued investment in digital capabilities to enhance frontline efficiency and customer experience, partially offset by productivity savings across the business.</li> <li>Depreciation and amortisation charges associated with investment in priority segments and digital.</li> </ul>
<b>Credit impairment charge up \$10m, 32.3%</b>	<ul style="list-style-type: none"> <li>Includes collective provision FLAs for targeted sectors, partially offset by improvement in the dairy portfolio.</li> <li>90+DPD assets plus gross impaired assets to gross loans and acceptances decreased by 17 basis points mainly due to a decrease in gross impaired assets relating to dairy exposures.</li> </ul>
<b>Total risk-weighted assets up \$1.2bn, 2.1%</b>	<ul style="list-style-type: none"> <li>Growth in exposures, partially offset by improvement in the quality of the portfolio.</li> </ul>

## New Zealand Banking

Results presented in Australian dollars. See page 46 for results in local currency.

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
Net interest income	828	810	776	2.2	6.7
Other operating income	263	266	264	(1.1)	(0.4)
<b>Net operating income</b>	<b>1,091</b>	<b>1,076</b>	<b>1,040</b>	<b>1.4</b>	<b>4.9</b>
Operating expenses	(426)	(419)	(408)	1.7	4.4
<b>Underlying profit</b>	<b>665</b>	<b>657</b>	<b>632</b>	<b>1.2</b>	<b>5.2</b>
Credit impairment charge	(38)	(29)	(38)	31.0	-
<b>Cash earnings before tax</b>	<b>627</b>	<b>628</b>	<b>594</b>	<b>(0.2)</b>	<b>5.6</b>
Income tax expense	(175)	(175)	(165)	-	6.1
<b>Cash earnings</b>	<b>452</b>	<b>453</b>	<b>429</b>	<b>(0.2)</b>	<b>5.4</b>

## Impact of foreign exchange rate movements

Favourable / (unfavourable) Mar 18	Half Year since Sep 17		Year since Mar 17	
	Mar 18 v Sep 17 \$m	Ex FX %	Mar 18 v Mar 17 \$m	Ex FX %
Net interest income	(15)	4.1	(25)	9.9
Other operating income	(5)	0.8	(8)	2.7
Operating expenses	8	3.6	12	7.4
Credit impairment charge	-	31.0	1	2.6
Income tax expense	4	2.3	6	9.7
Cash earnings	(8)	1.5	(14)	8.6

## Corporate Functions and Other

The Group's 'Corporate Functions' business includes functions that support all businesses including Treasury, Technology and Operations, Support Units and Eliminations. Treasury acts as the central vehicle for movements of capital and structural funding to support the Group's operations, together with capital, balance sheet management and the liquid asset portfolio.

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 <sup>(1)</sup> \$m	Mar 17 <sup>(1)</sup> \$m		
Net operating income	247	306	333	(19.3)	(25.8)
Operating expense (excluding restructuring-related costs)	(325)	(335)	(243)	(3.0)	33.7
Restructuring-related costs <sup>(2)</sup>	(755)	-	-	large	large
<b>Underlying (loss) / profit</b>	<b>(833)</b>	<b>(29)</b>	<b>90</b>	large	large
Credit impairment charge	(135)	(177)	(82)	(23.7)	64.6
<b>Cash (deficit) / earnings before tax and distributions</b>	<b>(968)</b>	<b>(206)</b>	<b>8</b>	large	large
Income tax benefit / (expense)	260	64	(17)	large	large
<b>Cash deficit before distributions</b>	<b>(708)</b>	<b>(142)</b>	<b>(9)</b>	large	large
Distributions	(49)	(49)	(49)	-	-
<b>Cash deficit</b>	<b>(757)</b>	<b>(191)</b>	<b>(58)</b>	large	large
<b>Cash deficit (excluding restructuring-related costs)</b>	<b>(227)</b>	<b>(191)</b>	<b>(58)</b>	18.8	large

### Corporate Functions

Financial Analysis

#### March 2018 v March 2017

Cash earnings decreased by \$699 million mainly due to restructuring-related costs, lower income from Treasury activities and higher expenses mainly due to provisions for regulatory and customer remediation and legal costs.

Key movements	Key drivers
<b>Net operating income down \$86m, 25.8%</b>	<ul style="list-style-type: none"> <li>Lower income mainly from funding and risk management activities within Treasury and higher customer compensation costs.</li> </ul>
<b>Operating expenses (excluding restructuring-related costs) up \$82m, 33.7%</b>	<ul style="list-style-type: none"> <li>Increased provisions for regulatory and customer remediation and legal costs.</li> </ul>
<b>Credit impairment charge up \$53m, 64.6%</b>	<ul style="list-style-type: none"> <li>Collective provision increases for planned model changes and Forward Looking Adjustments (FLAs) for targeted sectors, partially offset by collective provision FLAs raised for commercial real estate recognised in the prior period.</li> </ul>
<b>No change in distributions</b>	<ul style="list-style-type: none"> <li>Distributions remained stable.</li> </ul>

#### March 2018 v September 2017

Cash earnings decreased by \$566 million compared to the September 2017 half year. This decrease was driven mainly by the restructuring-related costs.

Key movements	Key drivers
<b>Net operating income down \$59m, 19.3%</b>	<ul style="list-style-type: none"> <li>Lower income from risk management activities within Treasury and non-recurring asset sales in the prior half year.</li> </ul>
<b>Operating expenses (excluding restructuring-related costs) down \$10m, 3.0%</b>	<ul style="list-style-type: none"> <li>Lower regulatory remediation and legal costs.</li> </ul>
<b>Credit impairment charge down \$42m, 23.7%</b>	<ul style="list-style-type: none"> <li>Lower level of collective provisions FLAs for targeted sectors, partially offset by collective provision increases for planned model changes.</li> </ul>
<b>No change in distributions</b>	<ul style="list-style-type: none"> <li>Distributions remained stable.</li> </ul>

<sup>(1)</sup> The March 2017 and September 2017 comparative information was restated to include Group Eliminations.

<sup>(2)</sup> Refer to Note 4 Operating expenses for further information.

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**Section 5**

**Financial Report**

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## Report of the Directors

The directors of National Australia Bank Limited (NAB) (ABN 12 004 044 937) present their report, together with the financial statements of NAB and its controlled entities (the Group) for the half year ended 31 March 2018.

### Directors

Directors who held office during or since the end of the half year are:

Dr Kenneth R Henry  
*Chairman from December 2015 and Director since November 2011*

Andrew G Thorburn  
*Managing Director and Chief Executive Officer since August 2014*

David H Armstrong  
*Director since August 2014*

Philip W Chronican  
*Director since May 2016*

Peeyush K Gupta  
*Director since November 2014*

Anne J Loveridge  
*Director since December 2015*

Geraldine C McBride  
*Director since March 2014*

Douglas A McKay  
*Director since February 2016*

Ann C Sherry  
*Director since November 2017*

Anthony KT Yuen  
*Director since March 2010*

### Rounding of Amounts

Pursuant to the ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, amounts in this report and the accompanying financial statements have been rounded to the nearest million dollars, except where indicated.

### Review of Group Operations and Results <sup>(1)</sup>

In November 2017, the Group announced an acceleration of its strategy to enable the Group to grow whilst staying focussed on productivity.

The Group's purpose is to back the bold who move Australia forward and achieve its vision to be Australia and New Zealand's most respected bank.

This is underpinned by four aspirational objectives:

1. Net Promoter Score (NPS) <sup>(2)</sup> positive and number one NPS <sup>(2) (3)</sup> of Australian major banks for the Group's priority segments.
2. Cost-to-income ratio towards 35%.
3. Number 1 ROE of Australian major banks.
4. Top quartile employee engagement.

The Group plans to achieve these objectives by being the best business bank; becoming simpler and faster for its customers and its people; focusing on new and emerging growth opportunities; and developing great leaders, talent and culture.

The March 2018 half year result reflects growth in income, including a solid net interest margin outcome, strong asset quality across the Group's businesses as well as increased investment in new capabilities to support the Group's acceleration of its strategy.

Business and Private Banking delivered a strong revenue performance reflecting good business lending volume growth across the portfolio and increased margins, combined with continued improvement in asset quality. NAB continues to leverage its deep industry specialisations and strong market position.

Consumer Banking and Wealth results reflect growth in housing lending volumes combined with lower credit impairment charges. The Group continued to invest in the business to innovate and enhance customer experience.

Corporate and Institutional Banking focussed successfully on high growth high return sectors including infrastructure and financial institutions. It also delivered strong growth in Corporate Finance fee income by supporting Australian businesses to raise funding in global capital markets while matching investor clients with these issuances.

New Zealand Banking results reflect strong revenue driven by growth in housing, business lending and customer deposits, supported by investment in digital capabilities and productivity savings across the business.

The Group has improved its balance sheet strength, increasing its CET1 ratio by 10 basis points to 10.2% compared to the 31 March 2017 half year results.

Net profit from continuing operations increased by \$18 million or 0.6% for the 31 March 2018 half year compared to the 31 March 2017 half year. This was largely due to favourable movements in fair value and hedge ineffectiveness combined with higher revenue from repricing of the housing and business lending portfolios in Australia and New Zealand. This was partially offset by higher operating expenses from restructuring-related costs and continued investment in customer and technology capabilities.

<sup>(1)</sup> Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7 of NAB's 2018 Half Year Results Summary.

<sup>(2)</sup> Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.

<sup>(3)</sup> Priority Segments Net Promoter Score (NPS) is a simple average of the NPS scores of four priority segments: Home Owners, Investors, Small Business (\$0.1m-<\$5m) and Medium Business (\$5m-<\$50m). The Priority Segments NPS data is based on six months moving averages from Roy Morgan Research and DBM BFSM Research.

## Report of the Directors (continued)

### Review of Group Operations and Results <sup>(1)</sup> (continued)

Net interest income increased by \$369 million or 5.8%. The increase was driven by growth in housing and business lending volumes, combined with the benefits received from repricing activity and lower funding costs. This was partially offset by competitive pressures on housing and business lending margins, the impact of the bank levy introduced in the final quarter of 2017 and lower earnings on capital driven by a decline in the earnings rate, reflecting the low interest rate environment.

Other income increased by \$616 million or 27.5%. The increase was largely driven by favourable movements in fair value and hedge ineffectiveness, combined with higher Corporate Finance fees and increased sales of customer risk management products, partially offset by lower trading income in Markets and reduced risk management income in Treasury.

Operating expenses increased by \$928 million or 21.8%. Excluding restructuring-related costs of \$755 million, operating expenses increased due to an uplift in investment in customer and technology capabilities combined with annual salary and property rental increases, partially offset by productivity savings across the Group's businesses.

Credit impairment charge decreased by \$17 million or 4.3% due to the impairment of a smaller number of larger exposures in Corporate and Institutional Banking and lower charges in Business and Private Banking. This was partially offset by an increase in the combined level of collective provisions raised for planned model changes and Forward Looking Adjustments (FLAs) for targeted sectors.

Total assets increased by \$7,743 million or 1.0% compared to 30 September 2017. The increase was mainly due to growth in loans and advances (net of other financial assets at fair value and due from customers on acceptances) of \$5,754 million or 1.0%. This reflects continued momentum in housing lending, combined with growth in non-housing lending driven by the Group's focus on priority business segments. The increases in cash and liquid assets, due from other banks and trading securities of \$1,369 million or 1.0% reflect the Group's management of liquidity during the period. In addition, there were increases in trading and hedging derivative assets of \$1,119 million or 3.4% predominantly driven by foreign exchange rate and interest rate movements during the period.

Total liabilities increased by \$6,659 million or 0.9% compared to 30 September 2017. The increase was mainly due to growth in bonds, notes and subordinated debt of \$7,470 million or 6.0% due to foreign exchange movements and growth in long-term funding to support the Group's asset growth. In addition, there was an increase in deposits and other borrowings of \$2,086 million or 0.4% to support the increase in the Group's lending and liquidity portfolios. The increases were partially offset by a decrease in trading and hedging derivative liabilities of \$1,805 million or 6.3%, largely driven by interest rate movements during the period. Total equity increased by \$1,084 million or 2.1% compared to 30 September 2017

mainly due to an increase in contributed equity attributable to the Dividend Reinvestment Plan.

### Reshaping of Wealth Management

On 3 May 2018, the Group announced a strategy to reshape its Wealth Management offering. This involves an intention to pursue an exit of the Advice, Platform and Superannuation and Asset Management businesses. The Group is targeting separation by the end of the 2019 calendar year, subject to market conditions and the required approvals. The Group will continue to serve the needs of its customers by investing in a more focussed wealth offering, including JBWere (part of the Group's leading Business and Private Banking franchise) and nabtrade, the Group's fast growing online investing platform supporting self-directed customers.

### Corporate Governance

The Board has received the relevant assurances required under Recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations jointly from the Group Chief Executive Officer and the Group Chief Financial Officer in respect to the half year financial report for the period ended 31 March 2018.

The directors of NAB have a significant responsibility with respect to the integrity of external reporting. This involves reviewing and monitoring, with the assistance of the Audit Committee and management, the processes, controls and procedures that are in place to maintain the integrity of the Group's financial statements. Further details on the role of the Board and its Committees can be found online in the Corporate Governance section of the Group's website at [www.nab.com.au/about-us/corporate-governance](http://www.nab.com.au/about-us/corporate-governance).

### Auditor's independence declaration

A copy of the auditor's independence declaration as required by section 307C of the *Corporations Act 2001* (Cth) is set out on the following page and forms part of this report.

### Directors' signatures

Signed in accordance with the resolution of the directors:



Dr Kenneth R Henry  
Chairman



Mr Andrew G Thorburn  
Group Chief Executive Officer

3 May 2018

<sup>(1)</sup> Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7 of NAB's 2018 Half Year Results Summary.



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

As lead auditor for the review of National Australia Bank Limited for the half-year ended 31 March 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of National Australia Bank Limited and the entities it controlled during the financial period.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Sarah Lowe'.

Sarah Lowe  
Partner  
Melbourne

3 May 2018

## Consolidated Financial Statements

### Income Statement <sup>(1)</sup>

	Note	Half Year to		
		Mar 18 \$m	Sep 17 \$m	Mar 17 \$m
Interest income		14,093	14,052	13,351
Interest expense		(7,327)	(7,267)	(6,954)
Net interest income		6,766	6,785	6,397
Other income	3	2,858	2,600	2,242
Operating expenses <sup>(2)</sup>	4	(5,184)	(4,283)	(4,256)
Credit impairment charge	8	(382)	(425)	(399)
<b>Profit before income tax</b>		<b>4,058</b>	<b>4,677</b>	<b>3,984</b>
Income tax expense	5	(1,182)	(1,354)	(1,126)
<b>Net profit for the period from continuing operations</b>		<b>2,876</b>	<b>3,323</b>	<b>2,858</b>
Net loss after tax for the period from discontinued operations	15	(291)	(581)	(312)
<b>Net profit for the period</b>		<b>2,585</b>	<b>2,742</b>	<b>2,546</b>
Profit attributable to non-controlling interests		2	2	1
Net profit attributable to owners of NAB		2,583	2,740	2,545
		<b>cents</b>	<b>cents</b>	<b>cents</b>
Basic earnings per share		93.9	100.8	93.9
Diluted earnings per share		91.1	97.7	91.7
		<b>cents</b>	<b>cents</b>	<b>cents</b>
Basic earnings per share from continuing operations		104.7	122.5	105.6
Diluted earnings per share from continuing operations		101.0	117.9	102.6

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> Includes restructuring-related costs. Refer to Note 4 Operating expenses for further information.

Statement of Comprehensive Income <sup>(1)</sup>

	Note	Half Year to		
		Mar 18 \$m	Sep 17 \$m	Mar 17 \$m
<b>Net profit for the period from continuing operations</b>		2,876	3,323	2,858
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	11	19	(56)	67
Revaluation of land and buildings		-	1	-
Currency adjustments on translation of other contributed equity		46	31	(27)
Equity instruments at fair value through other comprehensive income reserve:				
Revaluation gains / (losses)		26	2	(3)
Tax on items transferred directly to equity		(6)	21	10
<b>Total items that will not be reclassified to profit or loss</b>		<b>85</b>	<b>(1)</b>	<b>47</b>
<b>Items that will be reclassified subsequently to profit or loss</b>				
Cash flow hedges:				
(Losses) / gains on cash flow hedging instruments		(55)	14	(129)
Gains / (losses) transferred to the income statement		4	(6)	7
Foreign currency translation reserve:				
Currency adjustments on translation of foreign operations, net of hedging		190	58	(331)
Transfer to the income statement on disposal of foreign operations		-	(10)	-
Debt instruments at fair value through other comprehensive income reserve:				
Revaluation (losses) / gains		(40)	(47)	72
Losses from sale transferred to the income statement		(2)	(1)	(2)
Change in loss allowance on debt instruments at fair value through other comprehensive income		5	(2)	1
Tax on items transferred directly to equity		1	8	9
<b>Total items that will be reclassified subsequently to profit or loss</b>		<b>103</b>	<b>14</b>	<b>(373)</b>
<b>Other comprehensive income for the period, net of income tax</b>		<b>188</b>	<b>13</b>	<b>(326)</b>
<b>Total comprehensive income for the period from continuing operations</b>		<b>3,064</b>	<b>3,336</b>	<b>2,532</b>
Net loss for the period from discontinued operations	15	(291)	(581)	(312)
<b>Total comprehensive income for the period</b>		<b>2,773</b>	<b>2,755</b>	<b>2,220</b>
Attributable to owners of NAB		2,771	2,753	2,219
Attributable to non-controlling interests		2	2	1

<sup>(1)</sup> Information is presented on a continuing operations basis.

Balance Sheet

	Note	As at		
		31 Mar 18 \$m	30 Sep 17 \$m	31 Mar 17 \$m
<b>Assets</b>				
Cash and liquid assets		44,232	43,826	40,373
Due from other banks		40,309	37,066	53,725
Trading derivatives <sup>(1)</sup>		29,013	29,137	33,176
Trading securities		48,674	50,954	48,501
Debt instruments at fair value through other comprehensive income		40,969	42,131	43,499
Other financial assets at fair value		13,173	16,058	18,520
Hedging derivatives <sup>(1)</sup>		5,135	3,892	5,625
Loans and advances		550,262	540,125	520,954
Due from customers on acceptances		5,288	6,786	8,548
Current tax assets		-	-	133
Property, plant and equipment		1,245	1,315	1,337
Goodwill and other intangible assets <sup>(2)</sup>		5,607	5,601	5,393
Deferred tax assets		2,070	1,988	1,711
Other assets <sup>(1) (3) (4)</sup>		10,091	9,446	7,825
<b>Total assets</b>		<b>796,068</b>	<b>788,325</b>	<b>789,320</b>
<b>Liabilities</b>				
Due to other banks		35,914	36,683	47,618
Trading derivatives <sup>(1)</sup>		26,503	27,187	33,988
Other financial liabilities at fair value		29,986	29,631	28,161
Hedging derivatives <sup>(1)</sup>		553	1,674	3,479
Deposits and other borrowings	10	502,690	500,604	487,252
Current tax liabilities		44	230	-
Provisions <sup>(2)</sup>		2,050	1,961	1,381
Bonds, notes and subordinated debt		132,341	124,871	124,027
Other debt issues		6,159	6,187	6,205
Other liabilities <sup>(1) (5)</sup>		7,427	7,980	6,353
<b>Total liabilities</b>		<b>743,667</b>	<b>737,008</b>	<b>738,464</b>
<b>Net assets</b>		<b>52,401</b>	<b>51,317</b>	<b>50,856</b>
<b>Equity</b>				
Contributed equity	11	35,702	34,627	34,341
Reserves	11	331	237	170
Retained profits	11	16,357	16,442	16,334
<b>Total equity (parent entity interest)</b>		<b>52,390</b>	<b>51,306</b>	<b>50,845</b>
Non-controlling interest in controlled entities		11	11	11
<b>Total equity</b>		<b>52,401</b>	<b>51,317</b>	<b>50,856</b>

<sup>(1)</sup> In September 2017, the March 2017 comparative information was restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).

<sup>(2)</sup> Includes restructuring-related costs. Refer to Note 4 Operating expenses for further details.

<sup>(3)</sup> In September 2017, the March 2017 comparative information was restated following a reclassification of investments relating to life insurance business into other assets.

<sup>(4)</sup> Includes cash collateral placed with third parties, accrued interest receivable, other debt instruments at amortised cost, equity instruments at fair value through other comprehensive income and investments in associates.

<sup>(5)</sup> Includes cash collateral received from third parties, payables and accrued expenses and accrued interest payable.

## Condensed Cash Flow Statement

	Note	Half Year to		
		Mar 18 \$m	Sep 17 \$m	Mar 17 \$m
<b>Cash flows from operating activities</b>				
Interest received		13,859	13,938	13,238
Interest paid		(7,286)	(7,270)	(7,045)
Dividends received		15	29	7
Income tax paid		(1,451)	(1,234)	(1,310)
Other cash flows from operating activities before changes in operating assets and liabilities		(1,135)	(4,862)	(1,777)
Changes in operating assets and liabilities arising from cash flow movements <sup>(1)</sup>		(5,101)	(6,169)	15,672
<b>Net cash provided by / (used in) operating activities <sup>(2)</sup></b>		<b>(1,099)</b>	<b>(5,568)</b>	<b>18,785</b>
<b>Net cash provided by / (used in) investing activities <sup>(3)</sup></b>		<b>907</b>	<b>1,284</b>	<b>(1,597)</b>
<b>Cash flows from financing activities</b>				
Repayments of bonds, notes and subordinated debt <sup>(1)</sup>		(12,947)	(15,058)	(17,368)
Proceeds from issue of bonds, notes and subordinated debt <sup>(1)</sup>		16,100	17,963	19,355
Repayments of other contributed equity		-	-	(400)
Repayment of other debt issues		(34)	(33)	(40)
Dividends and distributions paid (excluding dividend reinvestment plan)		(1,769)	(2,397)	(2,353)
<b>Net cash provided by / (used in) financing activities</b>		<b>1,350</b>	<b>475</b>	<b>(806)</b>
Net increase / (decrease) in cash and cash equivalents		1,158	(3,809)	16,382
Cash and cash equivalents at beginning of period		39,800	43,917	27,960
Effects of exchange rate changes on balance of cash held in foreign currencies		2,104	(308)	(425)
<b>Cash and cash equivalents at end of period</b>	<b>12</b>	<b>43,062</b>	<b>39,800</b>	<b>43,917</b>

<sup>(1)</sup> In September 2017, the March 2017 comparative information was restated to reflect the reclassification of cash flows relating to bonds, notes and subordinated debt at fair value from changes in operating assets and liabilities arising from cash flow movements, to repayment of and proceeds from bonds, notes and subordinated debt.

<sup>(2)</sup> The half year to 31 March 2018 includes cash outflows related to the Group's discontinued operations, being \$618 million (September 2017: \$270 million; March 2017: \$64 million) related to CYBG and \$33 million (September 2017: \$56 million; March 2017: \$78 million) related to Wealth's life insurance business.

<sup>(3)</sup> Net cash provided by / (used in) investing activities includes a \$342 million cash outflow (September 2017: \$49 million cash inflow; March 2017: \$2,206 million cash inflow) from the sale of controlled entities or businesses.

Statement of Changes in Equity

	Contributed equity <sup>(1)</sup>	Reserves <sup>(1)</sup>	Retained profits <sup>(1)</sup>	Total	Non- controlling interest in controlled entities	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 October 2016</b>	34,285	629	16,378	51,292	23	51,315
Net profit for the period from continuing operations	-	-	2,857	2,857	1	2,858
Net loss for the period from discontinued operations	-	-	(312)	(312)	-	(312)
Other comprehensive income for the period from continuing operations	-	(403)	77	(326)	-	(326)
Total comprehensive income for the period	-	(403)	2,622	2,219	1	2,220
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	294	-	-	294	-	294
Redemption of National Capital Instruments <sup>(2)</sup>	(397)	-	(3)	(400)	-	(400)
Transfer from / (to) retained profits	-	19	(19)	-	-	-
Transfer from equity-based compensation reserve	159	(159)	-	-	-	-
Equity-based compensation	-	84	-	84	-	84
Dividends paid	-	-	(2,595)	(2,595)	(3)	(2,598)
Distributions on other equity instruments	-	-	(49)	(49)	-	(49)
Changes in ownership interests <sup>(3)</sup>						
Movement of non-controlling interest in controlled entities	-	-	-	-	(10)	(10)
<b>Balance at 31 March 2017</b>	34,341	170	16,334	50,845	11	50,856
Net profit for the period from continuing operations	-	-	3,321	3,321	2	3,323
Net loss for the period from discontinued operations	-	-	(581)	(581)	-	(581)
Other comprehensive income for the period from continuing operations	-	47	(34)	13	-	13
Total comprehensive income for the period	-	47	2,706	2,753	2	2,755
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	275	-	-	275	-	275
Transfer (to) / from retained profits	-	(72)	72	-	-	-
Transfer from equity-based compensation reserve	11	(11)	-	-	-	-
Equity-based compensation	-	103	-	103	-	103
Dividends paid	-	-	(2,621)	(2,621)	(2)	(2,623)
Distributions on other equity instruments	-	-	(49)	(49)	-	(49)
<b>Balance at 30 September 2017</b>	34,627	237	16,442	51,306	11	51,317
Net profit for the period from continuing operations	-	-	2,874	2,874	2	2,876
Net loss for the period from discontinued operations	-	-	(291)	(291)	-	(291)
Other comprehensive income for the period from continuing operations	-	174	14	188	-	188
Total comprehensive income for the period	-	174	2,597	2,771	2	2,773
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	914	-	-	914	-	914
Transfer from / (to) retained profits	-	1	(1)	-	-	-
Transfer from equity-based compensation reserve	161	(161)	-	-	-	-
Equity-based compensation	-	80	-	80	-	80
Dividends paid	-	-	(2,632)	(2,632)	(2)	(2,634)
Distributions on other equity instruments	-	-	(49)	(49)	-	(49)
<b>Balance at 31 March 2018</b>	35,702	331	16,357	52,390	11	52,401

<sup>(1)</sup> Refer to Note 11 - Contributed equity and reserves.

<sup>(2)</sup> National Capital Instruments were fully redeemed on 4 October 2016.

<sup>(3)</sup> Changes in ownership interests in controlled entities that does not result in a loss of control.



## Notes to the Consolidated Financial Statements

### 1. Principal Accounting Policies

This interim financial report for the half year reporting period ended 31 March 2018 has been prepared in accordance with the Australian Securities Exchange (ASX) Listing Rules, the *Corporations Act 2001* (Cth) and AASB 134 "Interim Financial Reporting".

This report has been prepared under the historical cost convention, as modified by the application of fair value measurements required or allowed by relevant accounting standards.

This interim financial report does not contain all disclosures of the type normally found within an annual financial report and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the Group as that given by the annual financial report. This report should be read in conjunction with the Group's 2017 Annual Financial Report and any public announcements made up until the date of this interim financial report.

Accounting policies are consistent with those applied in the Group's 2017 Annual Financial Report. There were no amendments to Australian Accounting Standards adopted during the period that have a material impact on the Group.

Discontinued operations are excluded from the results of the continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

#### a) Critical accounting assumptions and estimates

The preparation of this report requires the use of critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amounts of liabilities. Areas where assumptions are significant and are based on best estimates include:

- Impairment charges on loans and advances.
- Fair value of financial assets and liabilities.
- Provisions other than loan impairment (including provisions for conduct matters and restructuring-related costs).

No significant changes in assumptions have occurred in the 31 March 2018 half year reporting period compared to those applied in the 2017 Annual Financial Report.

#### b) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

## 2. Segment Information <sup>(1)</sup>

The Group evaluates reportable segments' performance on the basis of cash earnings. Cash earnings is a non-IFRS key financial performance measure used by NAB, the investment community and NAB's Australian peers with similar business portfolios. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. Cash earnings represents the net profit attributable to owners of NAB from continuing operations, adjusted for certain non-cash items and distributions.

The Group's business consists of the following reportable segments: Business and Private Banking; Consumer Banking and Wealth; Corporate and Institutional Banking; and New Zealand Banking. In addition, information on Corporate Functions and Other is included in this note to reconcile to Group information.

### Major Customers

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

### Reportable Segments

Segment Information	Half Year ended 31 March 2018			
	Cash Earnings	Net interest income	Total other income	Total assets <sup>(2)</sup>
	\$m	\$m	\$m	\$m
Business and Private Banking	1,482	2,756	532	196,180
Consumer Banking and Wealth	804	2,014	770	223,416
Corporate and Institutional Banking	778	946	737	250,117
New Zealand Banking	452	828	263	79,048
Corporate Functions and Other <sup>(3)</sup>	(757)	206	41	47,307
<b>Total</b>	<b>2,759</b>	<b>6,750</b>	<b>2,343</b>	<b>796,068</b>

Segment Information	Half Year ended 30 September 2017			
	Cash Earnings	Net interest income	Total other income	Total assets <sup>(2)</sup>
	\$m	\$m	\$m	\$m
Business and Private Banking	1,473	2,693	536	192,848
Consumer Banking and Wealth	869	2,009	780	217,567
Corporate and Institutional Banking	744	1,019	607	259,297
New Zealand Banking	453	810	266	76,055
Corporate Functions and Other <sup>(3)</sup>	(191)	242	64	42,558
<b>Total</b>	<b>3,348</b>	<b>6,773</b>	<b>2,253</b>	<b>788,325</b>

Segment Information	Half Year ended 31 March 2017			
	Cash Earnings	Net interest income	Total other income	Total assets <sup>(2)</sup>
	\$m	\$m	\$m	\$m
Business and Private Banking	1,368	2,564	526	189,819
Consumer Banking and Wealth	764	1,875	817	211,347
Corporate and Institutional Banking	791	953	761	258,172
New Zealand Banking	429	776	264	72,880
Corporate Functions and Other <sup>(3)</sup>	(58)	225	108	57,102
<b>Total</b>	<b>3,294</b>	<b>6,393</b>	<b>2,476</b>	<b>789,320</b>

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> Balances have not been restated to exclude discontinued operations.

<sup>(3)</sup> Corporate Functions and Other includes Group Eliminations.

2. Segment Information (continued) <sup>(1)</sup>

## Reportable Segments (continued)

## Reconciliations between reportable segment information and statutory results

	Half Year to		
	Mar 18	Sep 17	Mar 17
	\$m	\$m	\$m
<b>Reconciliation of cash earnings to Net profit attributable to owners of NAB</b>			
Cash earnings <sup>(2)</sup>	2,759	3,348	3,294
Non-cash earnings items (after tax):			
Distributions	49	49	49
Fair value and hedge ineffectiveness	81	(47)	(453)
Amortisation of acquired intangible assets	(15)	(29)	(33)
Net loss from discontinued operations	(291)	(581)	(312)
<b>Net profit attributable to owners of NAB</b>	<b>2,583</b>	<b>2,740</b>	<b>2,545</b>

	Half Year to		
	Mar 18	Sep 17	Mar 17
	\$m	\$m	\$m
<b>Reconciliation of net interest income</b>			
Net interest income on a cash earnings basis	6,750	6,773	6,393
Wealth net adjustment <sup>(3)</sup>	19	21	16
Fair value and hedge ineffectiveness	(3)	(9)	(12)
<b>Net interest income on a statutory basis</b>	<b>6,766</b>	<b>6,785</b>	<b>6,397</b>

	Half Year to		
	Mar 18	Sep 17	Mar 17
	\$m	\$m	\$m
<b>Reconciliation of other income</b>			
Other income on a cash earning basis	2,343	2,253	2,476
Wealth net adjustment <sup>(3)</sup>	413	388	429
Fair value and hedge ineffectiveness	109	(35)	(657)
Amortisation of acquired intangible assets	(7)	(6)	(6)
<b>Other income on a statutory basis</b>	<b>2,858</b>	<b>2,600</b>	<b>2,242</b>

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> Includes eliminations and distributions.

<sup>(3)</sup> The Wealth net adjustment represents a reallocation of the income statement of the Wealth business prepared on a cash earnings basis into the appropriate statutory income lines.

3. Other Income <sup>(1)</sup>

	Half Year to		
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m
<b>Gains less losses on financial instruments at fair value</b>			
Trading securities	662	(47)	(774)
Trading derivatives	(570)	691	1,444
Assets, liabilities and derivatives designated in hedge relationships <sup>(2)</sup>	463	(123)	(557)
Assets and liabilities designated at fair value	163	(98)	(127)
Other	-	66	77
<b>Total gains less losses on financial instruments at fair value</b>	<b>718</b>	<b>489</b>	<b>63</b>
<b>Other operating income</b>			
Dividend revenue	15	20	7
Gains from sale of investments, loans, property, plant and equipment and other assets	9	30	6
Banking fees	521	478	465
Money transfer fees	284	281	303
Fees and commissions	1,077	1,078	1,084
Investment management fees	154	143	137
Other income	80	81	177
<b>Total other operating income</b>	<b>2,140</b>	<b>2,111</b>	<b>2,179</b>
<b>Total other income</b>	<b>2,858</b>	<b>2,600</b>	<b>2,242</b>

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> Represents hedge ineffectiveness of designated hedging relationships.

4. Operating Expenses <sup>(1)</sup>

	Half Year to		
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m
<b>Personnel expenses</b>			
Salaries and related on-costs <sup>(2)</sup>	1,672	1,597	1,655
Superannuation costs - defined contribution plans <sup>(2)</sup>	134	127	131
Performance-based compensation:			
Cash <sup>(2)</sup>	241	144	251
Equity-based compensation	80	103	84
Total performance-based compensation	321	247	335
Other expenses <sup>(2) (3)</sup>	577	170	156
<b>Total personnel expenses</b>	<b>2,704</b>	<b>2,141</b>	<b>2,277</b>
<b>Occupancy-related expenses</b>			
Operating lease rental expense	225	224	218
Other expenses <sup>(3)</sup>	82	42	43
<b>Total occupancy-related expenses</b>	<b>307</b>	<b>266</b>	<b>261</b>
<b>General expenses</b>			
Fees and commission expense <sup>(2)</sup>	304	293	318
Depreciation and amortisation of property, plant and equipment	153	153	152
Amortisation of intangible assets	208	221	208
Advertising and marketing	103	102	85
Charge to provide for operational risk event losses	93	124	58
Communications, postage and stationery	104	118	86
Computer equipment and software	331	310	341
Data communication and processing charges	42	41	39
Professional fees <sup>(3)</sup>	420	283	220
Loss on disposal of property, plant and equipment and other assets	15	5	4
Impairment losses recognised <sup>(3)</sup>	150	20	-
Other expenses <sup>(3)</sup>	250	206	207
<b>Total general expenses</b>	<b>2,173</b>	<b>1,876</b>	<b>1,718</b>
<b>Total operating expenses</b>	<b>5,184</b>	<b>4,283</b>	<b>4,256</b>

## Restructuring

On 2 November 2017, the Group announced an acceleration of its strategic agenda to enhance the customer experience and simplify its business. During the March 2018 half year, management undertook activities to identify changes to the Group's workforce, physical footprint and processes in order to commence delivering on the acceleration initiative.

The Group satisfied the requirements of AASB 137 "Provisions, Contingent Liabilities and Contingent Assets" in March 2018 with internal announcements of a revised organisational structure, which identified specific roles affected by the restructuring. Furthermore, the Group commenced closure of a number of branches as part of the Group's changes to its physical footprint.

In the March 2018 half year the Group recognised restructuring-related costs of \$755 million, which comprises \$540 million of redundancy, outplacement and project management costs, \$146 million of software write-offs and \$69 million of property rationalisation costs.

The restructuring-related costs are reflected in other operating expenses as:

- \$427 million of personnel expenses;
- \$35 million of occupancy related expenses;
- \$146 million of impairment losses recognised; and
- \$147 million of other expenses.

The expenses are reflected in the Group's balance sheet as:

- \$568 million within provisions (excluding \$41 million of expenses already incurred in the half year prior to recognising the provision); and
- \$146 million reduction in goodwill and other intangible assets.

The Group expects the cash flows related to the restructuring provision to occur over the period to September 2020 as it undertakes the acceleration of its strategic agenda. Nonetheless, some uncertainty remains concerning the specific reporting periods in which particular portions of the provision will affect the Group's cash flows.

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> In September 2017, the March 2017 comparative information was restated to reflect a change in presentation due to reallocation of expenses between 'salaries and related oncosts', 'superannuation costs - defined contribution plans', 'performance based compensation - cash', 'other personnel expenses' and 'fees and commission expense'.

<sup>(3)</sup> Includes restructuring-related costs.

5. Income Tax Expense <sup>(1)</sup>

Reconciliation of income tax expense shown in the income statement with prima facie tax payable on the pre-tax accounting profit

	Half Year to		
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m
<b>Profit before income tax expense</b>	<b>4,058</b>	<b>4,677</b>	<b>3,984</b>
<b>Prima facie income tax at 30%</b>	<b>1,217</b>	<b>1,403</b>	<b>1,195</b>
Add / (deduct): Tax effect of amounts not deductible / (assessable):			
Assessable foreign income	3	4	3
Foreign tax rate differences	(20)	(16)	(27)
Foreign branch income not assessable	(31)	(35)	(43)
Over provision in prior years	(3)	(10)	(7)
Offshore banking unit income	(33)	(30)	(32)
Restatement of deferred tax balances for tax rate changes	8	5	(4)
Non-deductible hybrid distributions	36	35	35
Losses not tax effected	-	11	-
Other	5	(13)	6
<b>Total income tax expense</b>	<b>1,182</b>	<b>1,354</b>	<b>1,126</b>
<b>Effective tax rate (%)</b>	<b>29.1%</b>	<b>29.0%</b>	<b>28.3%</b>

<sup>(1)</sup> Information is presented on a continuing operations basis.

## 6. Dividends and Distributions

The Group has recognised the following dividends on ordinary shares:

	Half Year to					
	Mar 18		Sep 17		Mar 17	
	Amount per share cents	Total amount \$m	Amount per share cents	Total amount \$m	Amount per share cents	Total amount \$m
<b>Dividends on ordinary shares</b>						
Dividends declared	99	2,659	99	2,649	99	2,630
Deduct: Bonus shares in lieu of dividend	n/a	(27)	n/a	(28)	n/a	(35)
Dividends paid by NAB	n/a	2,632	n/a	2,621	n/a	2,595
Add: Dividends paid to non-controlling interest in controlled entities	n/a	2	n/a	2	n/a	3
<b>Total dividends paid by the Group</b>	<b>n/a</b>	<b>2,634</b>	<b>n/a</b>	<b>2,623</b>	<b>n/a</b>	<b>2,598</b>

Franked dividends declared or paid during the period were fully franked at a tax rate of 30% (2017: 30%).

### Interim dividend

On 3 May 2018, the directors declared the following dividend:

	Amount per share cents	Franked amount per share %	Foreign income per share %	Total amount \$m
Interim dividend declared in respect of the year ended 30 September 2018	99	100	-	2,696

The record date for determining entitlements to the 2018 interim dividend is 16 May 2018. The interim dividend has been declared by the directors of NAB and is payable on 5 July 2018. The discount applied to the Dividend Reinvestment Plan is nil, with no participation limit. The financial effect of this dividend has not been brought to account in the financial statements for the half year ended 31 March 2018 and will be recognised in subsequent financial reports.

	Half Year to					
	Mar 18		Sep 17		Mar 17	
	Amount per security <sup>(1)</sup> \$	Total amount \$m	Amount per security <sup>(1)</sup> \$	Total amount \$m	Amount per security <sup>(1)</sup> \$	Total amount \$m
<b>Distributions on other equity instruments</b>						
National Income Securities	1.49	30	1.49	30	1.52	30
Trust Preferred Securities <sup>(2)</sup>	49.08	19	47.82	19	46.17	19
<b>Total distributions on other equity instruments</b>		<b>49</b>		<b>49</b>		<b>49</b>

### Dividend and distribution plans

The dividend is paid in cash or as part of a dividend plan. Cash dividends are paid by way of direct credit or cash equivalents. The dividend plans in operation are the Dividend Reinvestment Plan and the Bonus Share Plan (closed to new participants).

The last date for receipt of election notices for the Dividend Reinvestment Plan and the Bonus Share Plan is 17 May 2018 at 5pm (Australian Eastern Standard time).

<sup>(1)</sup> Amount per security is based on actual dollar value divided by the number of units on issue.

<sup>(2)</sup> \$A equivalent.

## 7. Loans and Advances including Acceptances

	As at		
	31 Mar 18 \$m	30 Sep 17 \$m	31 Mar 17 \$m
Housing loans	333,758	329,534	320,788
Other term lending	199,856	197,134	189,479
Asset and lease financing	11,989	11,674	11,201
Overdrafts	5,853	5,673	5,833
Credit card outstandings	7,538	7,409	7,545
Other	6,620	6,539	6,181
Fair value adjustment	338	397	468
<b>Gross loans and advances</b>	<b>565,952</b>	<b>558,360</b>	<b>541,495</b>
Acceptances	5,288	6,786	8,548
<b>Gross loans and advances including acceptances</b>	<b>571,240</b>	<b>565,146</b>	<b>550,043</b>
<i>Represented by:</i>			
Loans and advances at fair value <sup>(1)</sup>	11,966	14,596	17,029
Loans and advances at amortised cost	553,986	543,764	524,466
Acceptances	5,288	6,786	8,548
<b>Gross loans and advances including acceptances</b>	<b>571,240</b>	<b>565,146</b>	<b>550,043</b>
Unearned income and deferred net fee income	(316)	(415)	(392)
Provision for credit impairment	(3,408)	(3,224)	(3,120)
<b>Net loans and advances including acceptances</b>	<b>567,516</b>	<b>561,507</b>	<b>546,531</b>
<b>Securitised loans and loans supporting covered bonds<sup>(2)</sup></b>	<b>34,847</b>	<b>38,957</b>	<b>38,726</b>

By product and geographic location	Australia \$m	New Zealand \$m	Other International \$m	Total Group \$m
	<b>As at 31 March 2018</b>			
Housing loans	297,668	35,965	125	333,758
Other term lending	153,034	36,298	10,524	199,856
Asset and lease financing	11,515	7	467	11,989
Overdrafts	3,773	2,039	41	5,853
Credit card outstandings	6,427	1,111	-	7,538
Other	4,569	500	1,551	6,620
Fair value adjustment	296	42	-	338
<b>Gross loans and advances</b>	<b>477,282</b>	<b>75,962</b>	<b>12,708</b>	<b>565,952</b>
Acceptances	5,288	-	-	5,288
<b>Gross loans and advances including acceptances</b>	<b>482,570</b>	<b>75,962</b>	<b>12,708</b>	<b>571,240</b>
<i>Represented by:</i>				
Loans and advances at fair value	8,668	3,298	-	11,966
Loans and advances at amortised cost	468,614	72,664	12,708	553,986
Acceptances	5,288	-	-	5,288
<b>Gross loans and advances including acceptances</b>	<b>482,570</b>	<b>75,962</b>	<b>12,708</b>	<b>571,240</b>

By product and geographic location	Australia \$m	New Zealand \$m	Other International \$m	Total Group \$m
	<b>As at 30 September 2017</b>			
Housing loans	292,989	34,417	2,128	329,534
Other term lending	151,239	35,552	10,343	197,134
Asset and lease financing	11,214	6	454	11,674
Overdrafts	3,662	1,958	53	5,673
Credit card outstandings	6,365	1,044	-	7,409
Other	4,336	508	1,695	6,539
Fair value adjustment	346	51	-	397
<b>Gross loans and advances</b>	<b>470,151</b>	<b>73,536</b>	<b>14,673</b>	<b>558,360</b>
Acceptances	6,786	-	-	6,786
<b>Gross loans and advances including acceptances</b>	<b>476,937</b>	<b>73,536</b>	<b>14,673</b>	<b>565,146</b>
<i>Represented by:</i>				
Loans and advances at fair value	10,926	3,670	-	14,596
Loans and advances at amortised cost	459,225	69,866	14,673	543,764
Acceptances	6,786	-	-	6,786
<b>Gross loans and advances including acceptances</b>	<b>476,937</b>	<b>73,536</b>	<b>14,673</b>	<b>565,146</b>

<sup>(1)</sup> On the balance sheet, this amount is included within other financial assets at fair value. This amount is included in the product and geographical analysis below.

<sup>(2)</sup> Loans supporting securitisation and covered bonds are included within the balance of net loans and advances including acceptances.



## 7. Loans and Advances including Acceptances (continued)

By product and geographic location	Australia \$m	New Zealand \$m	Other International \$m	Total Group \$m
<b>As at 31 March 2017</b>				
Housing loans	285,538	33,051	2,199	320,788
Other term lending	146,847	33,968	8,664	189,479
Asset and lease financing	10,740	6	455	11,201
Overdrafts	3,930	1,853	50	5,833
Credit card outstandings	6,473	1,072	-	7,545
Other	4,171	511	1,499	6,181
Fair value adjustment	437	57	(26)	468
<b>Gross loans and advances</b>	<b>458,136</b>	<b>70,518</b>	<b>12,841</b>	<b>541,495</b>
Acceptances	8,548	-	-	8,548
<b>Gross loans and advances including acceptances</b>	<b>466,684</b>	<b>70,518</b>	<b>12,841</b>	<b>550,043</b>
<i>Represented by:</i>				
Loans and advances at fair value	12,599	4,405	25	17,029
Loans and advances at amortised cost	445,537	66,113	12,816	524,466
Acceptances	8,548	-	-	8,548
<b>Gross loans and advances including acceptances</b>	<b>466,684</b>	<b>70,518</b>	<b>12,841</b>	<b>550,043</b>

## 8. Provision for credit impairment on loans at amortised cost

	Half Year to		
	Mar 2018	Sep 2017	Mar 2017
	\$m	\$m	\$m
New and increased provisions (net of releases)	521	596	581
Write-backs of specific provisions	(94)	(106)	(136)
Recoveries of specific provisions	(45)	(65)	(46)
<b>Total charge to the income statement</b>	<b>382</b>	<b>425</b>	<b>399</b>
Attributable to:			
Charge to income statement from continuing operations	382	425	399

## Movement in provision for credit impairment on loans at amortised cost

	Stage 1	Stage 2	Stage 3		Total
	12-mth expected credit losses (ECL)	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Lifetime ECL credit impaired	
	Collective provision	Collective provision	Collective provision	Specific provision	\$m
	\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 October 2016</b>	329	1,657	422	706	3,114
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	227	(216)	(11)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(31)	73	(42)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(45)	47	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(121)	(73)	195	-
New and increased provisions (net of releases)	(195)	273	87	416	581
Write-backs of specific provisions	-	-	-	(136)	(136)
Write-offs from specific provisions	-	-	-	(460)	(460)
Foreign currency translation and other adjustments	-	(8)	3	26	21
<b>Balance at 31 March 2017</b>	<b>327</b>	<b>1,613</b>	<b>433</b>	<b>747</b>	<b>3,120</b>
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	231	(218)	(13)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(40)	120	(80)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(42)	44	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(36)	(96)	133	-
New and increased provisions (net of releases)	(201)	380	114	303	596
Write-backs of specific provisions	-	-	-	(106)	(106)
Write-offs from specific provisions	-	-	-	(389)	(389)
Foreign currency translation and other adjustments	(1)	2	1	1	3
<b>Balance at 30 September 2017</b>	<b>313</b>	<b>1,819</b>	<b>403</b>	<b>689</b>	<b>3,224</b>
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	194	(178)	(16)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(42)	109	(67)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(48)	50	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(22)	(101)	124	-
New and increased provisions (net of releases)	(128)	291	114	244	521
Write-backs of specific provisions	-	-	-	(94)	(94)
Write-offs from specific provisions	-	-	-	(256)	(256)
Foreign currency translation and other adjustments	2	7	2	2	13
<b>Balance at 31 March 2018</b>	<b>336</b>	<b>1,978</b>	<b>385</b>	<b>709</b>	<b>3,408</b>

## 9. Asset Quality

Impaired assets consist of retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days past due with security insufficient to cover principal and interest revenue, non-retail loans which are contractually 90 days past due and / or where there is sufficient doubt about the ultimate collectability 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).

	As at		
	31 Mar 18	30 Sep 17	31 Mar 17
	\$m	\$m	\$m
<b>Summary of total impaired assets</b>			
Impaired assets	1,560	1,724	2,393
Restructured loans	49	-	-
Gross impaired assets <sup>(1) (2)</sup>	1,609	1,724	2,393
Specific provisions for credit impairment <sup>(3)</sup>	(710)	(691)	(748)
<b>Net impaired assets</b>	<b>899</b>	<b>1,033</b>	<b>1,645</b>

	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
<b>Movement in gross impaired assets</b>				
<b>Balance as at 1 October 2016</b>	1,558	1,028	56	2,642
New <sup>(4)</sup>	572	93	25	690
Written-off	(251)	(13)	(18)	(282)
Returned to performing or repaid	(496)	(124)	(35)	(655)
Foreign currency translation adjustments	(1)	(42)	41	(2)
<b>Balance as at 31 March 2017</b>	1,382	942	69	2,393
New <sup>(4)</sup>	335	99	18	452
Written-off	(164)	(14)	(8)	(186)
Returned to performing, repaid or no longer impaired	(341)	(606)	(8)	(955)
Foreign currency translation adjustments	1	16	3	20
<b>Balance as at 30 September 2017</b>	1,213	437	74	1,724
New <sup>(4)</sup>	314	155	-	469
Written-off	(72)	(14)	(5)	(91)
Returned to performing, repaid or no longer impaired	(260)	(230)	(14)	(504)
Foreign currency translation adjustments	-	8	3	11
<b>Balance as at 31 March 2018</b>	1,195	356	58	1,609

The amounts below are not classified as impaired assets and therefore are not included in the above summary.

	As at		
	31 Mar 18	30 Sep 17	31 Mar 17
	\$m	\$m	\$m
<b>90+ days past due loans - by geographic location</b>			
Australia	2,296	2,094	2,086
New Zealand	113	138	182
Other international	18	13	14
<b>90+ days past due loans <sup>(5)</sup></b>	<b>2,427</b>	<b>2,245</b>	<b>2,282</b>

<sup>(1)</sup> Gross impaired assets include \$76 million (NZ\$81 million), (September 2017: \$205 million (NZ\$222 million), March 2017: \$726 million (NZ\$795 million)) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

<sup>(2)</sup> Gross impaired assets include \$19 million (September 2017: \$34 million, March 2017: \$119 million) of gross impaired other financial assets at fair value.

<sup>(3)</sup> Includes \$1 million (September 2017: \$2 million; March 2017: \$1 million) of specific provision on loans at fair value.

<sup>(4)</sup> New gross impaired assets during the March 2018 half year include \$43 million (NZ\$47 million) (September 2017 half year \$9 million (NZ\$10 million), March 2017 half year \$31 million (NZ\$33 million)) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

<sup>(5)</sup> Includes \$nil (September 2017: \$3 million, March 2017: \$3 million) of 90+ days past due loans at fair value.

## 10. Deposits and Other Borrowings

	As at		
	31 Mar 18 \$m	30 Sep 17 \$m	31 Mar 17 \$m
Term deposits	158,146	160,884	156,568
On-demand and short-term deposits	200,951	199,449	198,847
Certificates of deposit	46,867	52,255	52,149
Deposits not bearing interest <sup>(1)</sup>	49,306	47,247	44,138
<b>Total deposits</b>	<b>455,270</b>	<b>459,835</b>	<b>451,702</b>
Borrowings	27,919	21,981	22,415
Securities sold under agreements to repurchase	24,063	23,493	19,543
Fair value adjustment	(3)	5	8
<b>Total deposits and other borrowings</b>	<b>507,249</b>	<b>505,314</b>	<b>493,668</b>
<i>Represented by:</i>			
Total deposits and other borrowings at fair value	4,559	4,710	6,416
Total deposits and other borrowings at amortised cost	502,690	500,604	487,252
<b>Total deposits and other borrowings</b>	<b>507,249</b>	<b>505,314</b>	<b>493,668</b>

	Australia \$m	New Zealand \$m	Other International \$m	Total Group \$m
<b>By product and geographic location</b>				
<b>As at 31 March 2018</b>				
Term deposits	119,139	31,676	7,331	158,146
On-demand and short-term deposits	168,397	18,920	13,634	200,951
Certificates of deposit	36,848	1,849	8,170	46,867
Deposits not bearing interest <sup>(1)</sup>	44,117	5,179	10	49,306
<b>Total deposits</b>	<b>368,501</b>	<b>57,624</b>	<b>29,145</b>	<b>455,270</b>
Borrowings	25,697	1,635	587	27,919
Securities sold under agreements to repurchase	888	-	23,175	24,063
Fair value adjustment	-	(3)	-	(3)
<b>Total deposits and other borrowings</b>	<b>395,086</b>	<b>59,256</b>	<b>52,907</b>	<b>507,249</b>
<i>Represented by:</i>				
Total deposits and other borrowings at fair value	-	4,559	-	4,559
Total deposits and other borrowings at amortised cost	395,086	54,697	52,907	502,690
<b>Total deposits and other borrowings</b>	<b>395,086</b>	<b>59,256</b>	<b>52,907</b>	<b>507,249</b>

	Australia \$m	New Zealand \$m	Other International \$m	Total Group \$m
<b>By product and geographic location</b>				
<b>As at 30 September 2017</b>				
Term deposits	121,766	29,623	9,495	160,884
On-demand and short-term deposits	165,951	17,346	16,152	199,449
Certificates of deposit	38,617	1,246	12,392	52,255
Deposits not bearing interest <sup>(1)</sup>	42,548	4,682	17	47,247
<b>Total deposits</b>	<b>368,882</b>	<b>52,897</b>	<b>38,056</b>	<b>459,835</b>
Borrowings	19,560	2,232	189	21,981
Securities sold under agreements to repurchase	1,282	-	22,211	23,493
Fair value adjustment	-	5	-	5
<b>Total deposits and other borrowings</b>	<b>389,724</b>	<b>55,134</b>	<b>60,456</b>	<b>505,314</b>
<i>Represented by:</i>				
Total deposits and other borrowings at fair value	-	4,710	-	4,710
Total deposits and other borrowings at amortised cost	389,724	50,424	60,456	500,604
<b>Total deposits and other borrowings</b>	<b>389,724</b>	<b>55,134</b>	<b>60,456</b>	<b>505,314</b>

<sup>(1)</sup> Deposits not bearing interest include mortgage offset accounts.

## 10. Deposits and Other Borrowings (continued)

<b>By product and geographic location</b>	<b>Australia \$m</b>	<b>New Zealand \$m</b>	<b>Other International \$m</b>	<b>Total Group \$m</b>
<b>As at 31 March 2017</b>				
Term deposits	117,540	26,695	12,333	<b>156,568</b>
On-demand and short-term deposits	160,606	18,111	20,130	<b>198,847</b>
Certificates of deposit	36,181	1,480	14,488	<b>52,149</b>
Deposits not bearing interest <sup>(1)</sup>	39,591	4,508	39	<b>44,138</b>
<b>Total deposits</b>	<b>353,918</b>	<b>50,794</b>	<b>46,990</b>	<b>451,702</b>
Borrowings	18,825	3,103	487	<b>22,415</b>
Securities sold under agreements to repurchase	550	-	18,993	<b>19,543</b>
Fair value adjustment	-	8	-	<b>8</b>
<b>Total deposits and other borrowings</b>	<b>373,293</b>	<b>53,905</b>	<b>66,470</b>	<b>493,668</b>
<i>Represented by:</i>				
Total deposits and other borrowings at fair value	-	6,416	-	<b>6,416</b>
Total deposits and other borrowings at amortised cost	373,293	47,489	66,470	<b>487,252</b>
<b>Total deposits and other borrowings</b>	<b>373,293</b>	<b>53,905</b>	<b>66,470</b>	<b>493,668</b>

<sup>(1)</sup> Deposits not bearing interest include mortgage offset accounts.

## 11. Contributed Equity and Reserves

	As at		
	31 Mar 18 \$m	30 Sep 17 \$m	31 Mar 17 \$m
<b>Contributed equity</b>			
<b>Issued and paid-up ordinary share capital</b>			
Ordinary shares, fully paid	32,782	31,707	31,421
<b>Other contributed equity</b>			
National Income Securities	1,945	1,945	1,945
Trust Preferred Securities	975	975	975
<b>Total contributed equity</b>	<b>35,702</b>	<b>34,627</b>	<b>34,341</b>

	Half Year to		
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m
<b>Movement in issued and paid-up ordinary share capital</b>			
<b>Ordinary share capital</b>			
Balance at beginning of period	31,707	31,421	30,968
Shares issued:			
Dividend reinvestment plan	914	275	294
Transfer from equity-based compensation reserve	161	11	159
<b>Balance at end of period</b>	<b>32,782</b>	<b>31,707</b>	<b>31,421</b>

	As at		
	31 Mar 18 \$m	30 Sep 17 \$m	31 Mar 17 \$m
<b>Reserves</b>			
Foreign currency translation reserve	(109)	(338)	(415)
Asset revaluation reserve	83	83	83
Cash flow hedge reserve	(6)	46	40
Equity-based compensation reserve	191	273	157
General reserve for credit losses	-	-	96
Debt instruments at fair value through other comprehensive income reserve	61	89	127
Equity instruments at fair value through other comprehensive income reserve	111	84	82
<b>Total reserves</b>	<b>331</b>	<b>237</b>	<b>170</b>

	Half Year to		
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m
<b>Movement in retained profits</b>			
Balance at beginning of period	16,442	16,334	16,378
Net profit attributable to owners of NAB from continuing operations	2,874	3,321	2,857
Net loss attributable to owners of NAB from discontinued operations	(291)	(581)	(312)
Dividends paid	(2,632)	(2,621)	(2,595)
Distributions on other equity instruments	(49)	(49)	(49)
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	19	(56)	67
Reclassification of National Capital Instruments transaction costs	-	-	(3)
Transfer from / (to) equity-based compensation reserve <sup>(1)</sup>	1	(24)	2
Transfer from / (to) general reserve for credit losses	-	96	(21)
Transfer from equity instruments at fair value through other comprehensive income reserve	(2)	-	-
Tax on items taken directly (from) / to equity	(5)	22	10
<b>Balance at end of period</b>	<b>16,357</b>	<b>16,442</b>	<b>16,334</b>

<sup>(1)</sup> Transfer from / (to) equity-based compensation reserve relates to lapsed options and rights. In addition, the amount for the half year to September 2017 included an adjustment for correction of prior period equity-based compensation.

## 12. Notes to the Condensed Cash Flow Statement

### (a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash and liquid assets and amounts due from other banks (including reverse repurchase agreements and short-term government securities), net of amounts due to other banks that are readily convertible to known amounts of cash within three months.

Cash and cash equivalents as shown in the condensed cash flow statement is reconciled to the related items on the balance sheet as follows:

	As at		
	31 Mar 18	30 Sep 17	31 Mar 17
	\$m	\$m	\$m
<b>Cash and cash equivalents</b>			
<b>Assets</b>			
Cash and liquid assets	44,232	43,826	40,373
Treasury and other eligible bills	379	762	358
Due from other banks (excluding mandatory deposits with supervisory central banks)	34,212	31,703	48,385
<b>Total cash and cash equivalents assets</b>	<b>78,823</b>	<b>76,291</b>	<b>89,116</b>
<b>Liabilities</b>			
Due to other banks	(35,761)	(36,491)	(45,199)
<b>Total cash and cash equivalents</b>	<b>43,062</b>	<b>39,800</b>	<b>43,917</b>

Included within due from other banks is the cash deposit of \$263 million (£148 million) (September 2017: \$877 million (£513 million), March 2017: \$1,055 million (£646 million)) held with The Bank of England in connection with the CYBG demerger, that is required to collateralise NAB's obligations under the Capped Indemnity as agreed with the United Kingdom Prudential Regulation Authority (PRA). Further information is provided in *Note 14 Contingent liabilities*.

### (b) Non-cash financing and investing transactions

	Half Year to		
	Mar 18	Sep 17	Mar 17
	\$m	\$m	\$m
New share issues			
Dividend reinvestment plan	914	275	294
New debt issues			
Subordinated medium-term notes reinvestment offer	-	-	539

### (c) Disposal of businesses

The Group sold its Private Wealth business in Singapore and Hong Kong to Oversea-Chinese Banking Corporation Limited (OCBC Bank) on 10 November 2017 and 24 November 2017 respectively.

The transaction involved the sale at book value of designated assets and liabilities of \$2,015 million and \$2,357 million respectively. The difference between the agreed value of the transferred assets and liabilities was settled through a cash payment of \$342 million.

### 13. Fair Value of Financial Instruments

#### (a) Fair value of financial instruments carried at amortised cost

The table below shows a comparison of the carrying amounts, as reported on the balance sheet, and an estimate of the fair value of those financial assets and liabilities measured at amortised cost where the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the balance sheet are not approximately equal to their fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values are based on relevant information available at the reporting date and involves judgement.

	As at 31 March 2018		As at 30 September 2017		As at 31 March 2017	
	Carrying Value \$m	Fair Value \$m	Carrying Value \$m	Fair Value \$m	Carrying Value \$m	Fair Value \$m
<b>Financial assets</b>						
Loans and advances	550,262	550,615	540,125	540,739	520,954	521,754
<b>Financial liabilities</b>						
Deposits and other borrowings	502,690	502,934	500,604	500,910	487,252	487,471
Bonds, notes and subordinated debt <sup>(1)</sup>	132,341	133,459	124,871	127,129	124,027	125,688
Other debt issues	6,159	6,269	6,187	6,361	6,205	6,339

#### (b) Fair value measurements recognised on the balance sheet

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value using a hierarchy that reflects the significance of inputs used in measuring the fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 - Financial instruments that have been valued by reference to unadjusted quoted prices for identical financial assets or financial liabilities in active markets. Financial instruments included in this category are typically related to Commonwealth of Australia and New Zealand government bonds and spot and exchange traded derivatives.
- Level 2 - Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for the financial asset or financial liability, either directly (as prices) or indirectly (derived from prices). Financial instruments included in this category are over-the-counter trading and hedging derivatives, semi-government bonds, financial institution and corporate bonds, mortgage-backed securities, loans measured at fair value, and issued bonds, notes and subordinated debt measured at fair value.
- Level 3 - Financial instruments that have been valued through valuation techniques incorporating inputs that are not based on observable market data. Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. Financial instruments included in this category are bespoke trading derivatives, trading derivatives where the credit valuation adjustment is considered unobservable and significant to the valuation, and certain asset-backed securities valued using unobservable inputs.

Techniques to determine the fair value of financial instruments categorised as Level 2 or Level 3 include discounted cash flow models, option pricing models or other market accepted valuation techniques. These valuation techniques address factors such as interest rates, credit risk and liquidity.

<sup>(1)</sup> Fair value hedge accounting is applied to certain bonds, notes and subordinated debt, and as a result the carrying amount includes fair value hedge adjustments.



## 13. Fair Value of Financial Instruments (continued)

## (b) Fair value measurements recognised on the balance sheet (continued)

	Fair value measurement as at 31 March 2018			
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>Financial assets</b>				
Trading derivatives	-	28,916	97	29,013
Trading securities	26,887	21,787	-	48,674
Debt instruments at fair value through other comprehensive income	3,315	37,092	562	40,969
Investments relating to life insurance business	-	80	-	80
Other financial assets at fair value	-	13,173	-	13,173
Hedging derivatives	-	5,135	-	5,135
Equity instruments at fair value through other comprehensive income <sup>(1)</sup>	-	231	63	294
<b>Total financial assets measured at fair value</b>	<b>30,202</b>	<b>106,414</b>	<b>722</b>	<b>137,338</b>
<b>Financial liabilities</b>				
Trading derivatives	2	26,423	78	26,503
Other financial liabilities at fair value	506	29,480	-	29,986
Hedging derivatives	-	553	-	553
<b>Total financial liabilities measured at fair value</b>	<b>508</b>	<b>56,456</b>	<b>78</b>	<b>57,042</b>

	Fair value measurement as at 30 September 2017			
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>Financial assets</b>				
Trading derivatives	-	29,043	94	29,137
Trading securities	27,811	23,143	-	50,954
Debt instruments at fair value through other comprehensive income	3,407	38,297	427	42,131
Investments relating to life insurance business	-	86	-	86
Other financial assets at fair value	-	16,058	-	16,058
Hedging derivatives	-	3,892	-	3,892
Equity instruments at fair value through other comprehensive income <sup>(1)</sup>	14	209	48	271
<b>Total financial assets measured at fair value</b>	<b>31,232</b>	<b>110,728</b>	<b>569</b>	<b>142,529</b>
<b>Financial liabilities</b>				
Trading derivatives	4	27,107	76	27,187
Other financial liabilities at fair value	279	29,352	-	29,631
Hedging derivatives	-	1,674	-	1,674
<b>Total financial liabilities measured at fair value</b>	<b>283</b>	<b>58,133</b>	<b>76</b>	<b>58,492</b>

	Fair value measurement as at 31 March 2017			
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>Financial assets</b>				
Trading derivatives <sup>(2)</sup>	429	32,580	169	33,178
Trading securities	26,739	21,762	-	48,501
Debt instruments at fair value through other comprehensive income	3,760	39,570	169	43,499
Investments relating to life insurance business	-	81	-	81
Other financial assets at fair value	45	18,443	32	18,520
Hedging derivatives	-	5,621	-	5,621
Equity instruments at fair value through other comprehensive income <sup>(1)</sup>	8	-	254	262
<b>Total financial assets measured at fair value</b>	<b>30,981</b>	<b>118,057</b>	<b>624</b>	<b>149,662</b>
<b>Financial liabilities</b>				
Trading derivatives <sup>(2)</sup>	841	33,025	137	34,003
Other financial liabilities at fair value	375	27,785	1	28,161
Hedging derivatives <sup>(2)</sup>	-	3,468	-	3,468
<b>Total financial liabilities measured at fair value</b>	<b>1,216</b>	<b>64,278</b>	<b>138</b>	<b>65,632</b>

For the half year ending 31 March 2018, there were no material transfers between Level 1 and Level 2.

<sup>(1)</sup> Equity instruments at fair value through other comprehensive income are included in other assets on the balance sheet.

<sup>(2)</sup> In September 2017, the March 2017 comparative information was restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).

### 13. Fair Value of Financial Instruments (continued)

#### (b) Fair value measurements recognised on the balance sheet (continued)

Reconciliation of assets and liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

	Half Year to 31 March 2018			Liabilities
	Assets		Equity instruments at fair value through other comprehensive income <sup>(1)</sup>	
	Trading derivatives	Debt instruments at fair value through other comprehensive income		
	\$m	\$m		
Balance at the beginning of period	94	427	48	76
Total gains / losses				
In profit or loss <sup>(2)</sup>	(3)	-	-	(2)
In other comprehensive income <sup>(3)</sup>	-	(10)	(5)	-
Purchases and issues	-	15	16	-
Sales and settlements	-	(53)	4	-
Transfers into Level 3 <sup>(4)</sup>	1	264	-	-
Transfers out of Level 3 <sup>(4)</sup>	-	(81)	-	-
Foreign currency translation adjustments	5	-	-	4
<b>Balance at the end of period</b>	<b>97</b>	<b>562</b>	<b>63</b>	<b>78</b>
Total gains / losses for the reporting period related to assets and liabilities held at the end of the reporting period				
- In profit or loss	(3)	-	-	(2)
- In other comprehensive income	-	(10)	(5)	-

The Group's exposure to fair value measurements based in full or in part on unobservable inputs is restricted to a small number of financial instruments, which comprise an insignificant component of the portfolios in which they belong. As such, a change in the assumptions used to value the instruments as at 31 March 2018 to reasonably possible alternatives would not have a material effect.

<sup>(1)</sup> Equity instruments at fair value through other comprehensive income are included in other assets on the balance sheet.

<sup>(2)</sup> Net gains or losses were recorded in gains less losses on financial instruments at fair value within other income.

<sup>(3)</sup> Net gains or losses were recorded in the reserves for debt instruments or equity instruments at fair value through other comprehensive income as appropriate.

<sup>(4)</sup> Transfers into Level 3 were due to the lack of observable inputs for valuation of certain financial instruments. Transfers out of Level 3 were due to the valuation inputs becoming observable during the period. Transfers between levels are deemed to have occurred at the beginning of the reporting period in which the instruments were transferred.

## 14. Contingent Liabilities

### (i) Legal proceedings - general

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business.

There are contingent liabilities in respect of claims, potential claims and court proceedings against entities of the Group. Where appropriate, provisions have been made. The aggregate of potential liability in respect thereof cannot be accurately assessed.

### (ii) Legal proceedings - specific

#### *Bank Bill Swap Reference Rate class action*

In August 2016, a class action complaint was filed in the United States District Court for the Southern District of New York regarding alleged conduct concerning the Bank Bill Swap Reference Rate (BBSW). The complaint named a number of defendants, including NAB, ANZ, CBA and Westpac, and references earlier proceedings brought by ASIC against NAB, ANZ and Westpac in relation to BBSW. The relevant ASIC proceedings against NAB were resolved in November 2017 pursuant to a court-approved settlement between ASIC and NAB. The potential outcome of the US class action proceedings cannot be determined with any certainty at this stage.

#### *UK conduct issues - potential action*

In December 2017, NAB received a letter before action from solicitors acting for RGL Management, a claims management company in the UK. The letter makes various allegations against NAB and CYBG in relation to the sale of fixed rate tailored business loans to customers of CYBG during the period from 2001 to 2012. The potential outcome of any proceedings which may arise cannot be determined with any certainty at this stage.

### (iii) Regulatory compliance investigations - general

Entities within the Group are subject from time to time to regulatory investigations arising from the conduct of their business. This includes regulatory investigations in relation to actual or potential breaches of law or regulations, and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry established on 14 December 2017. In addition to situations where the relevant regulatory authority is carrying out the investigation, this includes situations where the Group is carrying out the investigation itself or a third party has been engaged to carry out the investigation.

There are contingent liabilities in respect of regulatory investigations involving entities of the Group. Where appropriate, provisions have been made. The outcome of such regulatory investigations, including whether enforcement action will be taken or other legal proceedings initiated, is typically uncertain and the aggregate of potential liability in respect thereof cannot be accurately assessed.

### (iv) Regulatory compliance investigations - specific

#### *Adviser service fees*

ASIC is conducting an industry-wide investigation into financial advice fees paid by customers pursuant to ongoing service arrangements with financial advice firms, including members of the NAB Group. Under the service arrangements, customers generally pay an adviser service fee in consideration for a range of services provided to the customer. NAB is investigating whether customers who have paid to receive ongoing services have been provided with the agreed services in accordance with the relevant service agreement. NAB continues to engage with ASIC on the design of the methodology for investigating and assessing this matter; however, agreement with ASIC has not yet been reached due to different views about aspects of NAB's proposed approach. The outcomes of the investigation are uncertain at this time.

#### *Plan Service Fees*

Further to ASIC's May 2017 report about its industry-wide investigation into financial advice fees, NAB has finalised refunds to customers who did not have a plan adviser attached to their superannuation account and were incorrectly charged Plan Service Fees. ASIC has requested NAB consider certain circumstances regarding continuity of service where a Plan Service Fee continues to be charged and paid to a plan adviser after a superannuation fund member leaves an employer and is transferred to the personal division of the corporate superannuation product. NAB continues to engage with ASIC on this matter. The outcomes of the ASIC investigation are uncertain at this time.

#### *Wealth advice review*

In October 2015, NAB began contacting certain groups of customers where there was a concern that they may have received non-compliant advice since 2009 to: (a) assess the appropriateness of that advice; and (b) identify whether customers had suffered loss as a result of non-compliant advice that would warrant compensation. These cases are progressing through the Customer Response Initiative review program with compensation in some cases offered and paid.

The outcomes and total costs associated with this work are uncertain. Plaintiff law firms continue to encourage NAB customers who have suffered losses as a result of financial advice received from NAB advisers to contact them for legal advice. No class actions have been taken against the Group in this regard.

#### *NZ Ministry of Business, Innovation and Employment compliance audit*

The Labour Inspectorate of the New Zealand Ministry of Business, Innovation and Employment is currently undertaking a program of compliance audits of a number of New Zealand organisations in respect of the New Zealand Holidays Act 2003 (the "Holidays Act").

## 14. Contingent Liabilities (continued)

BNZ requested early participation in this program in May 2016 and received the Labour Inspectorate's final report, which set out its findings regarding BNZ's compliance with the Holidays Act, on 18 January 2017. The findings indicated that BNZ has not complied with certain requirements of the Holidays Act, including in respect of annual and public holiday payments to certain employees. BNZ is working with the Labour Inspectorate to reach an appropriate resolution. At this stage, the final outcome of the audit cannot be determined with any certainty.

### *Anti-Money Laundering and Counter-Terrorist Financing Program Uplift Work*

Since July 2016, NAB has been progressing a program of work to uplift and strengthen the Group Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) Program and its implementation. The work involves significant investment in systems, ensuring an effective and efficient control environment and uplifting compliance capability. In addition to a general uplift in capability, the program of work aims to remediate specific compliance issues and weaknesses if they are identified.

Where significant AML / CTF compliance issues are identified, they are notified to AUSTRAC or equivalent foreign regulators, and those regulators are typically consulted and updated about progress in investigating and remediating the relevant issues. Investigation and remediation activities are currently occurring in relation to a number of identified issues, including certain weaknesses with the implementation of 'Know Your Customer' requirements and systems and process issues that impacted transaction monitoring and reporting for some specific areas.

It is possible that, as the work progresses, further issues may be identified and additional strengthening may be required. The outcomes of the investigation and remediation process for specific issues identified to date, and for any issues identified in the future, are uncertain.

### **(v) Contractual commitments**

#### *Insurance claims*

NAB is in the process of making insurance claims in relation to certain conduct-related losses suffered by the Group. The insurance claims are accounted for by NAB as a contingent asset. The outcome of such claims cannot be determined with any certainty at this stage.

#### *Contracts - general*

Entities within the Group enter into contractual agreements from time to time, which sometimes involve giving contingent commitments such as warranties, indemnities or guarantees.

There are contingent liabilities in respect of such commitments. Where appropriate, provisions have been made. The aggregate potential liability in respect thereof cannot be accurately assessed.

### *UK conduct issues and the Conduct Indemnity Deed*

As at 31 March 2018, £148 million remained outstanding as available support to CYBG under the Conduct Indemnity Deed (Deed). However, NAB has also increased the Group's provisions held for expected future conduct claims from CYBG by the same amount, leaving no further financial exposure for NAB to conduct indemnity claims under the Deed (other than any potential tax liabilities as described below, the likelihood of which is considered low).

As part of the arrangements relating to the CYBG demerger, NAB and CYBG entered into the Deed under which NAB agreed, subject to certain limitations, to provide an indemnity in respect of certain historic conduct liabilities (Capped Indemnity). Claims may be made by CYBG under the Capped Indemnity when it or any member of CYBG Group raises a new provision or increases an existing provision in respect of any such conduct issues. More information on the Deed is available in the contingent liabilities note to the Annual Financial Report 2017.

During the half year ended 31 March 2018, CYBG has made claims under the Capped Indemnity for £363 million (substantively provided for by NAB in prior periods), leaving £148 million outstanding as available support under the Capped Indemnity (Unutilised Indemnity Amount). In addition, CYBG has announced that it expects to increase its provisions held in respect of payment protection insurance (PPI) by £350 million at its half year results (for the period ended 31 March 2018). Consequently, NAB has increased the amount of provisions held for expected future claims under the Deed by £148 million (representing the portion of any increased CYBG provision for which NAB would be responsible). NAB expects that CYBG will make a claim under the Deed for this amount, reducing the Unutilised Indemnity Amount to zero.

NAB collateralised its obligations under the Capped Indemnity by placing a cash deposit of £1.115 billion with The Bank of England from the Demerger Date. The cash deposit with The Bank of England has been reduced commensurate with the amounts claimed under the Capped Indemnity such that the cash deposit amount is equal to the Unutilised Indemnity Amount (plus accrued interest). The Unutilised Indemnity Amount is treated as a Common Equity Tier 1 (CET1) deduction for NAB.

It is not expected that payments to CYBG under the Capped Indemnity will be taxable in the hands of CYBG Group, but if tax were to be payable then the Deed contains provisions pursuant to which NAB has agreed to compensate CYBG for any actual tax incurred that would not have been incurred but for the receipt of amounts under the Capped Indemnity.

Except for the Capped Indemnity and the tax provisions set out in the Deed, CYBG has agreed to release NAB from liability for any other historic conduct-related claims made by any member of CYBG Group against NAB.

**15. Discontinued Operations**

The results set out below represent the discontinued operations of the UK Banking operations related to the CYBG demerger which occurred in 2016. During the March 2018 half year, a net loss of \$291 million (tax nil) was recognised in discontinued operations relating to the Conduct Indemnity Deed entered into with CYBG. Refer to *Note 14 Contingent liabilities* for further information on the Conduct Indemnity Deed.

**Analysis of loss for the half year from discontinued operations**

	Half Year to		
	Mar 18	Sep 17	Mar 17
	\$m	\$m	\$m
<b>Total discontinued operations</b>			
Net loss from CYBG discontinued operation	(291)	(581)	(312)
<b>Net loss from discontinued operations</b>	<b>(291)</b>	<b>(581)</b>	<b>(312)</b>

## **16. Events Subsequent to Reporting Date**

On 1 April 2018, the Group changed its accounting policy to apply the hedge accounting requirements in AASB 9 “Financial Instruments” to hedge relationships except fair value hedges of interest rate risk from portfolios of financial assets and financial liabilities. Under the new accounting policy, the Group has elected to exclude foreign currency basis spreads from the designation of derivatives hedging currency risk in respect of bonds, notes and subordinated debt. Rather than impacting profit or loss through hedge ineffectiveness, the change in fair value of foreign currency basis spreads will be recognised in a cost of hedging reserve to the extent it relates to the hedged item.

On 3 May 2018, the Group announced its intention to pursue a divestment of the Advice, Platform & Superannuation and Asset Management businesses. The Group is targeting separation by the end of the 2019 calendar year via public market options including demerger and initial public offering, while maintaining flexibility to consider trade sale options. Any potential transaction will be subject to market conditions and the required Board and regulatory approvals.

Other than the matter noted above, there are no other items, transactions or events of a material or unusual nature that have arisen in the interval between 31 March 2018 and the date of this report that, in the opinion of the directors, have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

## Directors' Declaration

The directors of National Australia Bank Limited declare that, in the directors' opinion:

- a) as at the date of this declaration, there are reasonable grounds to believe that NAB will be able to pay its debts as and when they become due and payable; and
- b) the financial statements and the notes, as set out on pages 55 to 81, are in accordance with the *Corporations Act 2001* (Cth), including:
  - i. section 304, which requires that the half year financial report comply with Accounting Standards made by the Australian Accounting Standards Board for the purposes of the *Corporations Act 2001* (Cth) and any further requirements in the *Corporations Regulations 2001*; and
  - ii. section 305, which requires that the financial statements and notes give a true and fair view of the financial position of the Group as at 31 March 2018, and of the performance of the Group for the six months ended 31 March 2018.

Dated this 3rd day of May, 2018 and signed in accordance with a resolution of the directors.



Dr Kenneth R Henry  
Chairman



Mr Andrew G Thorburn  
Group Chief Executive Officer

## Independent Review Report



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## Independent Auditor's Review Report to the Members of National Australia Bank Limited

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the accompanying half-year financial report of National Australia Bank Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 31 March 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated condensed cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the consolidated financial position of the Group as at 31 March 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 March 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.





## Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Sarah Lowe'.

Sarah Lowe  
Partner  
Melbourne

3 May 2018

**Section 6**

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## 1. Australian Banking and Wealth

	Half Year to			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m		
<b>Net interest income</b>					
Housing lending	1,787	1,828	1,630	(2.2)	9.6
Business lending	1,763	1,749	1,660	0.8	6.2
Other banking products	474	473	499	0.2	(5.0)
Deposits	1,637	1,561	1,490	4.9	9.9
NAB Risk Management	55	110	113	(50.0)	(51.3)
<b>Total net interest income</b>	<b>5,716</b>	<b>5,721</b>	<b>5,392</b>	<b>(0.1)</b>	<b>6.0</b>
<b>Other operating income</b>					
Housing lending	119	131	128	(9.2)	(7.0)
Business lending	365	312	326	17.0	12.0
Other banking products	448	429	469	4.4	(4.5)
Deposits	30	31	33	(3.2)	(9.1)
Customer Risk Management	330	315	297	4.8	11.1
NAB Risk Management	173	136	256	27.2	(32.4)
Wealth income	569	559	589	1.8	(3.4)
<b>Total other operating income</b>	<b>2,034</b>	<b>1,913</b>	<b>2,098</b>	<b>6.3</b>	<b>(3.1)</b>
<b>Credit impairment charge</b>					
Specific credit impairment charge	210	244	415	(13.9)	(49.4)
Collective credit impairment write-back	(10)	(34)	(141)	(70.6)	(92.9)
<b>Total credit impairment charge</b>	<b>200</b>	<b>210</b>	<b>274</b>	<b>(4.8)</b>	<b>(27.0)</b>
Housing lending	47	35	24	34.3	95.8
Business lending	28	76	88	(63.2)	(68.2)
Other banking products	125	99	162	26.3	(22.8)
<b>Total credit impairment charge</b>	<b>200</b>	<b>210</b>	<b>274</b>	<b>(4.8)</b>	<b>(27.0)</b>
<b>Net interest margin</b>					
Housing lending net interest margin	1.34%	1.38%	1.27%	(4 bps)	7 bps
Business lending net interest margin	1.90%	1.90%	1.84%	-	6 bps
<b>Volumes (\$bn)</b>					
Housing lending	297.8	295.1	287.7	0.9	3.5
Business lending	187.4	185.7	180.9	0.9	3.6
Other lending	10.5	10.3	10.5	1.9	-
Gross loans and acceptances	495.7	491.1	479.1	0.9	3.5
Customer deposits	340.8	343.3	333.4	(0.7)	2.2

Market Share	As at		
	31 Mar 18	30 Sep 17	31 Mar 17
Business lending <sup>(1)</sup>	21.1%	21.4%	21.5%
Business lending <sup>(2)</sup>	20.1%	20.4%	20.7%
Business deposits <sup>(1)</sup>	19.1%	19.5%	19.1%
Housing lending <sup>(1)</sup>	15.7%	15.7%	15.6%
Household deposits <sup>(1)</sup>	14.2%	14.2%	14.3%

Distribution	As at		
	31 Mar 18	30 Sep 17	31 Mar 17
Number of branches and business banking centres	774	796	810
Number of ATMs <sup>(3)</sup>	2,869	2,934	2,984
Number of internet banking customers (million)	4.07	4.00	3.81

<sup>(1)</sup> Source: APRA Banking System.<sup>(2)</sup> Source: RBA Financial System.<sup>(3)</sup> Number of ATMs includes RediATMs.

## 1. Australian Banking and Wealth (continued)

### Funds Under Management and Administration (FUM/A) and Assets Under Management (AUM) <sup>(1)</sup>

<b>Movement in FUM/A (\$m) <sup>(2)</sup></b>	<b>As at Mar 17</b>	<b>Inflows</b>	<b>Outflows</b>	<b>Netflows</b>	<b>Investment earnings</b>	<b>Other <sup>(3)</sup></b>	<b>As at Mar 18</b>	<b>Mar 18 v Mar 17 %</b>
Retail	56,737	7,582	(7,817)	(235)	2,434	270	59,206	4.4
Offsale Products	9,295	250	(1,222)	(972)	447	(297)	8,473	(8.8)
Business & Corporate Superannuation	44,694	5,691	(5,239)	452	3,265	-	48,411	8.3
JBWere	19,071	4,973	(2,095)	2,878	1,491	-	23,440	22.9
<b>Total</b>	<b>129,797</b>	<b>18,496</b>	<b>(16,373)</b>	<b>2,123</b>	<b>7,637</b>	<b>(27)</b>	<b>139,530</b>	<b>7.5</b>

<b>Movement in AUM (\$m) <sup>(4)</sup></b>								
Portfolio Management	136,964	12,859	(13,672)	(813)	4,070	1,262	141,483	3.3
Investment Management	57,193	16,752	(17,668)	(916)	2,133	(584)	57,826	1.1
<b>Total</b>	<b>194,157</b>	<b>29,611</b>	<b>(31,340)</b>	<b>(1,729)</b>	<b>6,203</b>	<b>678</b>	<b>199,309</b>	<b>2.7</b>

<b>Movement in FUM/A (\$m) <sup>(2)</sup></b>	<b>As at Sep 17</b>	<b>Inflows</b>	<b>Outflows</b>	<b>Netflows</b>	<b>Investment earnings</b>	<b>Other <sup>(3)</sup></b>	<b>As at Mar 18</b>	<b>Mar 18 v Sep 17 %</b>
Retail	58,001	2,971	(3,414)	(443)	1,648	-	59,206	2.1
Offsale Products	8,643	90	(513)	(423)	253	-	8,473	(2.0)
Business & Corporate Superannuation	46,291	2,352	(2,447)	(95)	2,215	-	48,411	4.6
JBWere	20,865	2,347	(985)	1,362	1,213	-	23,440	12.3
<b>Total</b>	<b>133,800</b>	<b>7,760</b>	<b>(7,359)</b>	<b>401</b>	<b>5,329</b>	<b>-</b>	<b>139,530</b>	<b>4.3</b>

<b>Movement in AUM (\$m) <sup>(4)</sup></b>								
Portfolio Management	138,677	5,528	(7,433)	(1,905)	3,894	817	141,483	2.0
Investment Management	56,581	12,099	(12,634)	(535)	1,498	282	57,826	2.2
<b>Total</b>	<b>195,258</b>	<b>17,627</b>	<b>(20,067)</b>	<b>(2,440)</b>	<b>5,392</b>	<b>1,099</b>	<b>199,309</b>	<b>2.1</b>

<sup>(1)</sup> In September 2017, the March 2017 comparative information was restated to present FUM/A and AUM in to two separate disclosures that represent all managed funds and assets from which the Group derives revenue. Certain items will be represented in both FUM/A and AUM meaning the two should not be summed.

<sup>(2)</sup> FUM/A represents the market value of funds administered by the Group excluding AUM.

<sup>(3)</sup> Other includes distributions and parameter changes in unit pricing.

<sup>(4)</sup> AUM represents the market value of funds for which the Group acts as Funds Adviser or Investment Manager.

## 2. Loans and Advances by Industry and Geography

	Australia	New Zealand	Other International	Total
	\$m	\$m	\$m	\$m
<b>As at 31 March 2018</b>				
Real estate - mortgage	297,668	35,965	125	333,758
Other commercial and industrial	57,282	8,683	4,666	70,631
Commercial property services	58,966	8,660	320	67,946
Agriculture, forestry, fishing and mining	22,084	14,839	82	37,005
Financial, investment and insurance	14,980	1,956	6,541	23,477
Asset and lease financing	11,515	7	467	11,989
Instalment loans to individuals and other personal lending (including credit cards)	9,449	1,447	26	10,922
Manufacturing	7,221	3,142	220	10,583
Real estate - construction	1,535	1,059	223	2,817
Government and public authorities	1,870	204	38	2,112
<b>Gross loans and advances including acceptances<sup>(1)</sup></b>	<b>482,570</b>	<b>75,962</b>	<b>12,708</b>	<b>571,240</b>
Deduct:				
Unearned income and deferred net fee income	(323)	65	(58)	(316)
Provision for credit impairment	(2,800)	(552)	(56)	(3,408)
<b>Total net loans and advances including acceptances</b>	<b>479,447</b>	<b>75,475</b>	<b>12,594</b>	<b>567,516</b>

	Australia	New Zealand	Other International	Total
	\$m	\$m	\$m	\$m
<b>As at 30 September 2017</b>				
Real estate - mortgage	292,989	34,417	2,128	329,534
Other commercial and industrial	56,629	8,885	4,835	70,349
Commercial property services	59,022	8,600	121	67,743
Agriculture, forestry, fishing and mining	21,822	14,262	114	36,198
Financial, investment and insurance	14,973	2,017	6,178	23,168
Asset and lease financing	11,214	6	454	11,674
Instalment loans to individuals and other personal lending (including credit cards)	9,428	1,386	63	10,877
Manufacturing	7,334	2,821	521	10,676
Real estate - construction	1,588	942	220	2,750
Government and public authorities	1,938	200	39	2,177
<b>Gross loans and advances including acceptances<sup>(1)</sup></b>	<b>476,937</b>	<b>73,536</b>	<b>14,673</b>	<b>565,146</b>
Deduct:				
Unearned income and deferred net fee income	(429)	71	(57)	(415)
Provision for credit impairment	(2,648)	(509)	(67)	(3,224)
<b>Total net loans and advances including acceptances</b>	<b>473,860</b>	<b>73,098</b>	<b>14,549</b>	<b>561,507</b>

	Australia	New Zealand	Other International	Total
	\$m	\$m	\$m	\$m
<b>As at 31 March 2017</b>				
Real estate - mortgage	285,538	33,051	2,199	320,788
Other commercial and industrial	56,758	8,244	4,485	69,487
Commercial property services	57,310	8,283	335	65,928
Agriculture, forestry, fishing and mining	21,426	13,566	94	35,086
Financial, investment and insurance	14,374	1,941	4,609	20,924
Asset and lease financing	10,740	6	455	11,201
Instalment loans to individuals and other personal lending (including credit cards)	9,615	1,433	105	11,153
Manufacturing	7,356	2,880	308	10,544
Real estate - construction	1,604	908	213	2,725
Government and public authorities	1,963	206	38	2,207
<b>Gross loans and advances including acceptances<sup>(1)</sup></b>	<b>466,684</b>	<b>70,518</b>	<b>12,841</b>	<b>550,043</b>
Deduct:				
Unearned income and deferred net fee income	(411)	75	(56)	(392)
Provision for credit impairment	(2,580)	(476)	(64)	(3,120)
<b>Total net loans and advances including acceptances</b>	<b>463,693</b>	<b>70,117</b>	<b>12,721</b>	<b>546,531</b>

<sup>(1)</sup> Includes loans at fair value.

### 3. Average Balance Sheet and Related Interest <sup>(1)</sup>

The following tables show the major categories of interest earning assets and interest bearing liabilities, together with their respective interest rates earned or incurred by the Group. Averages are predominantly daily averages. Amounts classified as Other International represent interest earning assets and interest bearing liabilities of the controlled entities and overseas branches domiciled in the United Kingdom, the United States and Asia. Impaired assets are included within loans and advances in interest earning assets.

#### Average assets and interest income

	Half Year ended Mar 18			Half Year ended Sep 17			Half Year ended Mar 17		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
<b>Average interest earning assets</b>									
Due from other banks									
Australia	11,911	79	1.3	10,706	90	1.7	13,601	101	1.5
New Zealand	4,562	36	1.6	2,540	19	1.5	3,610	26	1.4
Other International	28,370	209	1.5	32,045	207	1.3	36,505	147	0.8
Total due from other banks	44,843	324	1.4	45,291	316	1.4	53,716	274	1.0
Marketable debt securities									
Australia	76,265	1,017	2.7	76,710	1,064	2.8	69,873	916	2.6
New Zealand	5,519	57	2.1	5,752	63	2.2	5,200	61	2.4
Other International	11,337	56	1.0	10,991	56	1.0	13,624	66	1.0
Total marketable debt securities	93,121	1,130	2.4	93,453	1,183	2.5	88,697	1,043	2.4
Loans and advances - housing									
Australia	267,426	5,788	4.3	262,349	5,763	4.4	256,003	5,449	4.3
New Zealand	33,047	790	4.8	32,673	789	4.8	32,217	792	4.9
Other International	658	12	3.7	2,176	35	3.2	2,239	36	3.2
Total loans and advances - housing	301,131	6,590	4.4	297,198	6,587	4.4	290,459	6,277	4.3
Loans and advances - non-housing									
Australia	183,985	4,503	4.9	182,678	4,460	4.9	180,950	4,386	4.9
New Zealand	39,006	932	4.8	38,751	908	4.7	38,120	867	4.6
Other International	12,159	158	2.6	10,906	135	2.5	10,497	128	2.4
Total loans and advances - non-housing	235,150	5,593	4.8	232,335	5,503	4.7	229,567	5,381	4.7
Other interest earning assets									
Australia	4,496	130	n/a	5,768	141	n/a	5,177	154	n/a
New Zealand	461	18	n/a	1,404	40	n/a	524	19	n/a
Other International	45,858	308	n/a	42,718	282	n/a	36,190	203	n/a
Total other interest earning assets	50,815	456	n/a	49,890	463	n/a	41,891	376	n/a
<b>Total average interest earning assets and interest income by:</b>									
Australia	544,083	11,517	4.2	538,211	11,518	4.3	525,604	11,006	4.2
New Zealand	82,595	1,833	4.5	81,120	1,819	4.5	79,671	1,765	4.4
Other International	98,382	743	1.5	98,836	715	1.4	99,055	580	1.2
<b>Total average interest earning assets and interest income</b>	<b>725,060</b>	<b>14,093</b>	<b>3.9</b>	<b>718,167</b>	<b>14,052</b>	<b>3.9</b>	<b>704,330</b>	<b>13,351</b>	<b>3.8</b>

<sup>(1)</sup> Information is presented on a continuing operations basis.

3. Average Balance Sheet and Related Interest (continued)<sup>(1)</sup>

## Average assets and interest income

	Half Year ended		
	Mar 18	Sep 17	Mar 17
	\$m	\$m	\$m
<b>Average non-interest earning assets</b>			
Investments relating to life insurance business			
New Zealand	80	82	80
Total investments relating to life insurance business	80	82	80
Other assets	85,371	87,188	93,798
<b>Total average non-interest earning assets</b>	<b>85,451</b>	<b>87,270</b>	<b>93,878</b>
Provision for credit impairment			
Australia	(2,626)	(2,501)	(2,501)
New Zealand	(509)	(487)	(480)
Other International	(63)	(69)	(76)
Total provision for credit impairment	(3,198)	(3,057)	(3,057)
<b>Total average assets</b>	<b>807,313</b>	<b>802,380</b>	<b>795,151</b>

<sup>(1)</sup> Information is presented on a continuing operations basis.

### 3. Average Balance Sheet and Related Interest (continued)<sup>(1)</sup>

#### Average liabilities and interest expense

	Half Year ended Mar 18			Half Year ended Sep 17			Half Year ended Mar 17		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
<b>Average interest bearing liabilities</b>									
Due to other banks									
Australia	25,978	199	1.5	25,955	201	1.5	25,266	193	1.5
New Zealand	2,055	8	0.8	2,155	10	0.9	1,933	7	0.7
Other International	17,438	92	1.1	16,788	71	0.8	20,497	77	0.8
Total due to other banks	45,471	299	1.3	44,898	282	1.3	47,696	277	1.2
On-demand and short-term deposits									
Australia	168,731	1,067	1.3	164,901	1,078	1.3	159,235	1,046	1.3
New Zealand	18,507	75	0.8	18,302	76	0.8	18,481	86	0.9
Other International	14,660	88	1.2	14,884	71	1.0	14,994	39	0.5
Total on-demand and short-term deposits	201,898	1,230	1.2	198,087	1,225	1.2	192,710	1,171	1.2
Certificates of deposit									
Australia	36,141	339	1.9	38,044	370	1.9	35,377	349	2.0
New Zealand	1,359	13	1.9	1,806	18	2.0	2,018	19	1.9
Other International	10,545	78	1.5	12,766	87	1.4	10,416	59	1.1
Total certificates of deposit	48,045	430	1.8	52,616	475	1.8	47,811	427	1.8
Term deposits									
Australia	120,276	1,492	2.5	117,448	1,499	2.5	120,299	1,618	2.7
New Zealand	30,756	529	3.4	28,535	486	3.4	27,272	456	3.4
Other International	7,691	66	1.7	11,278	83	1.5	12,433	93	1.5
Total term deposits	158,723	2,087	2.6	157,261	2,068	2.6	160,004	2,167	2.7
Other borrowings									
Australia	24,418	236	1.9	19,715	187	1.9	16,150	143	1.8
New Zealand	1,911	18	1.9	2,843	25	1.8	3,401	28	1.7
Other International	27,061	242	1.8	24,606	203	1.6	21,684	110	1.0
Total other borrowings	53,390	496	1.9	47,164	415	1.8	41,235	281	1.4
Bonds, notes and subordinated debt									
Australia	112,570	1,665	3.0	112,851	1,749	3.1	112,972	1,685	3.0
New Zealand	19,292	286	3.0	18,417	307	3.3	17,024	328	3.9
Other International	18,251	226	2.5	17,209	208	2.4	15,331	187	2.4
Total bonds, notes and subordinated debt	150,113	2,177	2.9	148,477	2,264	3.0	145,327	2,200	3.0
Other interest bearing liabilities									
Australia	5,963	581	n/a	5,973	495	n/a	5,793	399	n/a
Other International	857	27	n/a	1,306	43	n/a	1,728	32	n/a
Total other interest bearing liabilities	6,820	608	n/a	7,279	538	n/a	7,521	431	n/a
<b>Total average interest bearing liabilities and interest expense by:</b>									
Australia	494,077	5,579	2.3	484,887	5,579	2.3	475,092	5,433	2.3
New Zealand	73,880	929	2.5	72,058	922	2.6	70,129	924	2.6
Other International	96,503	819	1.7	98,837	766	1.5	97,083	597	1.2
<b>Total average interest bearing liabilities and interest expense</b>	<b>664,460</b>	<b>7,327</b>	<b>2.2</b>	<b>655,782</b>	<b>7,267</b>	<b>2.2</b>	<b>642,304</b>	<b>6,954</b>	<b>2.2</b>

<sup>(1)</sup> Information is presented on a continuing operations basis.



3. Average Balance Sheet and Related Interest (continued)<sup>(1)</sup>

## Average liabilities and equity

	Half Year ended		
	Mar 18 \$m	Sep 17 \$m	Mar 17 \$m
<b>Average non-interest bearing liabilities</b>			
Deposits not bearing interest			
Australia	43,665	41,158	38,858
New Zealand	4,854	4,579	4,462
Other International	11	29	4
Total deposits not bearing interest	48,530	45,766	43,324
Other liabilities	42,812	50,026	59,243
<b>Total average non-interest bearing liabilities</b>	<b>91,342</b>	<b>95,792</b>	<b>102,567</b>
<b>Total average liabilities</b>	<b>755,802</b>	<b>751,574</b>	<b>744,871</b>
<b>Average equity</b>			
Total equity (parent entity interest)	51,500	50,797	50,257
Non-controlling interest in controlled entities	11	9	23
<b>Total average equity</b>	<b>51,511</b>	<b>50,806</b>	<b>50,280</b>
<b>Total average liabilities and equity</b>	<b>807,313</b>	<b>802,380</b>	<b>795,151</b>

4. Net Interest Margins and Spreads<sup>(1)</sup>

Group	Half Year to			Mar 18 v Sep 17	Mar 18 v Mar 17
	Mar 18 %	Sep 17 %	Mar 17 %		
Net interest spread	1.69	1.69	1.63	-	6 bps
Benefit of net free liabilities, provisions and equity	0.18	0.19	0.19	(1 bp)	(1 bp)
Net interest margin - statutory basis	1.87	1.88	1.82	(1 bp)	5 bps

<sup>(1)</sup> Information is presented on a continuing operations basis.

## 5. Capital Adequacy - Basel III

The APRA Basel III capital standards have been in effect since 1 January 2013. Under APRA Prudential Standards, superannuation and funds management activities are de-consolidated from the Group for the purposes of calculating capital adequacy and excluded from the risk based capital adequacy framework. Under Basel III, the investment in superannuation and funds management entities is deducted from CET1 capital. Additionally, any profits from these activities included in the Group's results are excluded from CET1 capital to the extent that they have not been remitted to NAB. The principal superannuation and funds management entities are separately regulated and need to meet APRA Prudential Standards. The Group conservatively manages the superannuation and funds management capital adequacy and solvency position separately from the banking business, with a capital buffer in excess of minimum regulatory requirements.

	As at		
	31 Mar 18	30 Sep 17 <sup>(1)</sup>	31 Mar 17
	\$m	\$m	\$m
<b>Reconciliation to shareholders' funds</b>			
Contributed equity	35,702	34,627	34,341
Reserves	331	237	170
Retained profits	16,357	16,442	16,334
Non-controlling interest in controlled entities	11	11	11
<b>Total equity per consolidated balance sheet</b>	<b>52,401</b>	<b>51,317</b>	<b>50,856</b>
Equity-accounted Additional Tier 1 capital before application of Basel III transitional arrangements	(2,919)	(2,919)	(2,919)
Non-controlling interest in controlled entities	(11)	(11)	(11)
Treasury shares	-	6	6
General reserve for credit losses	-	-	(96)
Deconsolidation of Superannuation and Funds Management	(272)	(240)	853
<b>Common Equity Tier 1 Capital before regulatory adjustments</b>	<b>49,199</b>	<b>48,153</b>	<b>48,689</b>
Banking goodwill and other intangibles	(2,865)	(2,865)	(547)
Superannuation and Funds Management goodwill and other intangibles	(12)	(13)	(2,371)
Investment in non-consolidated controlled entities (net of intangible component)	(459)	(478)	(1,556)
Deferred tax assets in excess of deferred tax liabilities	(1,875)	(1,654)	(1,295)
Capitalised expenses	(596)	(570)	(537)
Capitalised software (excluding Superannuation and Funds Management)	(2,713)	(2,705)	(2,430)
Defined benefit pension scheme surplus	(30)	(29)	(20)
Change in own creditworthiness	183	199	142
Cash flow hedge reserve	6	(46)	(40)
Equity exposures	(1,016)	(982)	(406)
Expected loss in excess of eligible provisions	(183)	(170)	(131)
Other <sup>(2)</sup>	(84)	(415)	(1,648)
<b>Common Equity Tier 1 Capital</b>	<b>39,555</b>	<b>38,425</b>	<b>37,850</b>
Transitional Additional Tier 1 Capital instruments	2,422	2,920	2,920
Basel III eligible Additional Tier 1 Capital instruments	6,073	6,073	6,073
Regulatory adjustments to Additional Tier 1 Capital	(2)	(1)	(1)
<b>Additional Tier 1 Capital</b>	<b>8,493</b>	<b>8,992</b>	<b>8,992</b>
<b>Tier 1 Capital</b>	<b>48,048</b>	<b>47,417</b>	<b>46,842</b>
Collective provision for credit impairment - Standardised approach	59	59	60
Transitional Tier 2 Capital instruments	2,249	2,811	2,811
Basel III eligible Tier 2 Capital instruments	5,198	5,076	5,008
Eligible Tier 2 Capital for non-controlling interest	453	436	435
Regulatory adjustments to Tier 2 Capital	(108)	(92)	(84)
<b>Tier 2 Capital</b>	<b>7,851</b>	<b>8,290</b>	<b>8,230</b>
<b>Total Capital</b>	<b>55,899</b>	<b>55,707</b>	<b>55,072</b>
<b>Risk-weighted assets</b>			
Credit risk	329,882	325,969	317,853
Market risk	8,656	7,766	7,001
Operational risk	39,027	37,575	37,500
Interest rate risk in the banking book <sup>(3)</sup>	9,850	10,804	12,133
<b>Total risk-weighted assets</b>	<b>387,415</b>	<b>382,114</b>	<b>374,487</b>
<b>Risk-based regulatory capital ratios</b>			
Common Equity Tier 1	10.21%	10.06%	10.11%
Tier 1	12.40%	12.41%	12.51%
Total Capital	14.43%	14.58%	14.71%

<sup>(1)</sup> On 1 April 2017 the Group transitioned to a revised Level 2 Group structure, which has impacted a number of line items in the table. The overall effect of this change on the Group's capital position is immaterial and prior reporting periods have not been restated. Remaining transitional arrangements arising from debt issued directly by NWMH are no longer required.

<sup>(2)</sup> Prior periods include the deduction for the remaining conduct indemnity pursuant to the Conduct Indemnity Deed, net of conduct provisions.

<sup>(3)</sup> Due to an IRRBB model amendment reflected in the 30 September 2017 and 31 March 2018 results, the equivalent 31 March 2017 result would now be \$10,895 million.

## 5. Capital Adequacy - Basel III (continued)

	Risk-Weighted Assets as at			Exposures as at		
	31 Mar 18	30 Sep 17	31 Mar 17	31 Mar 18	30 Sep 17	31 Mar 17
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Credit risk<sup>(1)</sup></b>						
<b>IRB approach</b>						
Corporate (including SME) <sup>(2)</sup>	115,478	115,831	118,133	295,398	286,277	275,333
Sovereign	1,291	1,306	1,632	82,013	79,537	93,246
Bank	10,751	10,998	10,789	60,978	59,078	67,043
Residential Mortgage <sup>(3)</sup>	102,448	100,741	91,883	377,918	373,620	362,937
Qualifying revolving retail	4,124	4,062	3,785	11,617	11,574	11,671
Retail SME	6,573	5,949	6,021	17,689	16,342	16,246
Other retail	3,517	3,484	3,731	4,479	4,465	4,574
<b>Total IRB approach</b>	<b>244,182</b>	<b>242,371</b>	<b>235,974</b>	<b>850,092</b>	<b>830,893</b>	<b>831,050</b>
<b>Specialised lending</b>	<b>59,899</b>	<b>58,902</b>	<b>56,977</b>	<b>68,887</b>	<b>68,572</b>	<b>66,689</b>
<b>Standardised approach</b>						
Residential mortgage	1,623	2,414	2,557	2,260	4,306	4,523
Corporate	4,436	4,462	4,307	59,354	69,329	62,730
Other	513	521	531	1,145	1,170	1,150
<b>Total standardised approach</b>	<b>6,572</b>	<b>7,397</b>	<b>7,395</b>	<b>62,759</b>	<b>74,805</b>	<b>68,403</b>
<b>Other</b>						
Securitisation	4,313	3,380	3,325	20,859	22,486	22,235
Credit value adjustment	8,958	9,001	9,815	-	-	-
Central counterparty default fund contribution guarantee	1,029	1,005	800	-	-	-
Other <sup>(4)</sup>	4,929	3,913	3,567	6,245	6,191	5,891
<b>Total other</b>	<b>19,229</b>	<b>17,299</b>	<b>17,507</b>	<b>27,104</b>	<b>28,677</b>	<b>28,126</b>
<b>Total credit risk</b>	<b>329,882</b>	<b>325,969</b>	<b>317,853</b>	<b>1,008,842</b>	<b>1,002,947</b>	<b>994,268</b>
<b>Market risk</b>	<b>8,656</b>	<b>7,766</b>	<b>7,001</b>			
<b>Operational risk</b>	<b>39,027</b>	<b>37,575</b>	<b>37,500</b>			
<b>Interest rate risk in the banking book<sup>(5)</sup></b>	<b>9,850</b>	<b>10,804</b>	<b>12,133</b>			
<b>Total risk-weighted assets and exposures</b>	<b>387,415</b>	<b>382,114</b>	<b>374,487</b>			

<sup>(1)</sup> Risk-Weighted Assets which are calculated in accordance with APRA's requirements under the Basel Accord, are required to incorporate a scaling factor of 1.06 to assets that are not subject to specific risk weights.

<sup>(2)</sup> Corporate (including SME) consists of corporations, partnerships or proprietorships not elsewhere classified and includes non-banking entities held by banks.

<sup>(3)</sup> Uplift in residential mortgage RWA is primarily driven by an IRB model change.

<sup>(4)</sup> 'Other' includes non-lending asset exposures. March 2018 includes an RBNZ overlay adjustment required to maintain a minimum risk profile for the NZ Agriculture portfolio.

<sup>(5)</sup> Due to an IRRBB model amendment reflected in the 30 September 2017 and 31 March 2018 results, the equivalent 31 March 2017 result would now be \$10,895 million.

## 6. Earnings Per Share

Earnings per Share	Half Year to					
	Mar 18		Sep 17		Mar 17	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
<b>Earnings (\$m)</b>						
Net profit attributable to owners of NAB	2,583	2,583	2,740	2,740	2,545	2,545
Distributions on other equity instruments	(49)	(49)	(49)	(49)	(49)	(49)
Potential dilutive adjustments (after tax)						
Interest expense on convertible notes	-	62	-	63	-	63
Interest expense on convertible preference shares	-	59	-	60	-	59
Adjusted earnings	2,534	2,655	2,691	2,814	2,496	2,618
Net loss attributable to owners of NAB from discontinued operations	(291)	(291)	(581)	(581)	(312)	(312)
Adjusted earnings from continuing operations	2,825	2,946	3,272	3,395	2,808	2,930
<b>Weighted average ordinary shares (no. '000)</b>						
Weighted average ordinary shares (net of treasury shares)	2,699,116	2,699,116	2,670,722	2,670,722	2,658,228	2,658,228
Potential dilutive weighted average ordinary shares						
Performance rights	-	4,221	-	4,786	-	4,993
Partly paid ordinary shares	-	27	-	30	-	30
Employee share plans	-	4,517	-	5,021	-	4,279
Convertible notes	-	97,252	-	92,866	-	88,362
Convertible preference shares	-	110,593	-	105,605	-	100,483
Total weighted average ordinary shares	2,699,116	2,915,726	2,670,722	2,879,030	2,658,228	2,856,375
<b>Earnings per share (cents) attributable to owners of NAB</b>	93.9	91.1	100.8	97.7	93.9	91.7
Earnings per share from continuing operations (cents)	104.7	101.0	122.5	117.9	105.6	102.6

Cash Earnings per Share	Half Year to					
	Mar 18		Sep 17		Mar 17	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
<b>Earnings (\$m)</b>						
Cash earnings <sup>(1)</sup>	2,759	2,759	3,348	3,348	3,294	3,294
Potential dilutive adjustments (after tax)						
Interest expense on convertible notes	-	62	-	63	-	63
Interest expense on convertible preference shares	-	59	-	60	-	59
Adjusted cash earnings	2,759	2,880	3,348	3,471	3,294	3,416
<b>Weighted average ordinary shares (no. '000)</b>						
Weighted average ordinary shares (net of treasury shares) <sup>(2)</sup>	2,699,116	2,699,116	2,670,722	2,670,722	2,658,228	2,658,228
Potential dilutive weighted average ordinary shares						
Performance rights	-	4,221	-	4,786	-	4,993
Partly paid ordinary shares	-	27	-	30	-	30
Employee share plans	-	4,517	-	5,021	-	4,279
Convertible notes	-	97,252	-	92,866	-	88,362
Convertible preference shares	-	110,593	-	105,605	-	100,483
Total weighted average ordinary shares	2,699,116	2,915,726	2,670,722	2,879,030	2,658,228	2,856,375
<b>Earnings per share (cents) attributable to owners of NAB</b>	102.2	98.8	125.4	120.6	123.9	119.6

## 7. Net Tangible Assets

	As at		
	31 Mar 18	30 Sep 17	31 Mar 17
Net tangible assets per ordinary share (\$) <sup>(3)</sup>	16.11	15.93	15.90

<sup>(1)</sup> Refer to Profit Reconciliation section for reconciliation of cash earnings to net profit attributable to owners of NAB.

<sup>(2)</sup> Excludes any Treasury Shares held in respect of employee incentive schemes.

<sup>(3)</sup> Represents net assets excluding intangible assets, non-controlling interests, preference shares and other equity instruments divided by ordinary shares on issue at the end of the period.

8. Asset Funding <sup>(1)</sup>

	As at			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	31 Mar 18 \$m	30 Sep 17 \$m	31 Mar 17 \$m		
<b>Core assets</b>					
Gross loans and advances	553,986	543,764	524,466	1.9	5.6
Loans at fair value	11,966	14,596	17,029	(18.0)	(29.7)
Other financial assets at fair value	-	46	52	large	large
Due from customers on acceptances	5,288	6,786	8,548	(22.1)	(38.1)
Other debt instruments at amortised cost	396	584	755	(32.2)	(47.5)
<b>Total core assets</b>	<b>571,636</b>	<b>565,776</b>	<b>550,850</b>	<b>1.0</b>	<b>3.8</b>
<b>Funding and equity <sup>(2)</sup></b>					
Customer deposits	408,404	407,585	399,560	0.2	2.2
Term wholesale funding	159,595	155,430	147,022	2.7	8.6
Certificates of deposit	46,867	52,255	52,149	(10.3)	(10.1)
Securities sold under repurchase agreements	24,063	23,493	19,543	2.4	23.1
Due to other banks <sup>(3)</sup>	35,914	36,683	47,618	(2.1)	(24.6)
Other short term liabilities	35,161	25,448	30,291	38.2	16.1
Total equity excluding preference shares and other contributed equity	49,482	48,398	47,937	2.2	3.2
<b>Total funding liabilities and equity</b>	<b>759,486</b>	<b>749,292</b>	<b>744,120</b>	<b>1.4</b>	<b>2.1</b>
<b>Other liabilities</b>					
Trading derivatives	26,503	27,187	33,988	(2.5)	(22.0)
Hedging derivatives	553	1,674	3,479	(67.0)	(84.1)
Other liabilities	9,526	10,172	7,733	(6.4)	23.2
<b>Total liabilities and equity</b>	<b>796,068</b>	<b>788,325</b>	<b>789,320</b>	<b>1.0</b>	<b>0.9</b>

## Funded Balance Sheet

	As at			Mar 18 v Sep 17 %	Mar 18 v Mar 17 %
	31 Mar 18 \$m	30 Sep 17 \$m	31 Mar 17 \$m		
<b>Funding sources <sup>(2) (4)</sup></b>					
Stable customer deposits <sup>(5)</sup>	368,992	360,234	352,313	2.4	4.7
Term funding greater than 12 months	133,556	133,857	123,331	(0.2)	8.3
Equity	49,482	48,398	47,937	2.2	3.2
<b>Total stable funding</b>	<b>552,030</b>	<b>542,489</b>	<b>523,581</b>	<b>1.8</b>	<b>5.4</b>
Short term wholesale funding	103,299	98,457	108,346	4.9	(4.7)
Term funding less than 12 months	26,039	21,573	23,691	20.7	9.9
Other deposits <sup>(6)</sup>	39,412	47,351	47,247	(16.8)	(16.6)
<b>Total funding</b>	<b>720,780</b>	<b>709,870</b>	<b>702,865</b>	<b>1.5</b>	<b>2.5</b>
<b>Funded assets</b>					
Liquid assets <sup>(7)</sup>	112,683	107,904	115,348	4.4	(2.3)
Other short term assets <sup>(8)</sup>	27,437	31,060	33,849	(11.7)	(18.9)
<b>Total short term assets</b>	<b>140,120</b>	<b>138,964</b>	<b>149,197</b>	<b>0.8</b>	<b>(6.1)</b>
Business and other lending <sup>(9)</sup>	232,837	231,203	224,903	0.7	3.5
Housing lending	333,758	329,534	320,788	1.3	4.0
Other assets <sup>(10)</sup>	14,065	10,169	7,977	38.3	76.3
<b>Total long term assets</b>	<b>580,660</b>	<b>570,906</b>	<b>553,668</b>	<b>1.7</b>	<b>4.9</b>
<b>Total funded assets</b>	<b>720,780</b>	<b>709,870</b>	<b>702,865</b>	<b>1.5</b>	<b>2.5</b>

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> September 2017 and March 2017 comparative information has been restated to reflect a change in presentation of whole sale funding.

<sup>(3)</sup> Includes repurchase agreements due to other banks.

<sup>(4)</sup> Excludes repurchase agreements, trading and hedging derivatives, insurance assets and liabilities and any accruals, receivables and payables that do not provide net funding.

<sup>(5)</sup> Includes operational deposits, non-financial corporate deposits and retail / SME deposits.

<sup>(6)</sup> Includes non-operational financial institution deposits and certain offshore deposits.

<sup>(7)</sup> Regulatory liquid assets including HQLA and CLF eligible assets.

<sup>(8)</sup> Includes non-repo eligible liquid assets and trade finance loans.

<sup>(9)</sup> Excludes trade finance loans.

<sup>(10)</sup> Includes net derivatives, goodwill, property, plant and equipment and net of accruals, receivables and payables.

## 9. Number of Ordinary Shares

	Half Year to		
	Mar 18 No. '000	Sep 17 No. '000	Mar 17 No. '000
<b>Ordinary shares, fully paid</b>			
Balance at beginning of period	2,685,469	2,675,424	2,656,976
Shares issued:			
Dividend reinvestment plan	30,876	9,108	10,686
Bonus share plan	890	923	1,280
Employee share plans	4,712	2	6,247
Performance rights	975	10	231
Paying up of partly paid shares	4	2	4
	<b>2,722,926</b>	<b>2,685,469</b>	<b>2,675,424</b>
<b>Ordinary shares, partly paid to 25 cents</b>			
Balance at beginning of period	43	45	49
Paying up of partly paid shares	(4)	(2)	(4)
	<b>39</b>	<b>43</b>	<b>45</b>
<b>Total number of ordinary shares on issue at end of period (including treasury shares)</b>	<b>2,722,965</b>	<b>2,685,512</b>	<b>2,675,469</b>
Less: Treasury shares	(8,319)	(9,643)	(10,322)
<b>Total number of ordinary shares on issue at end of period (excluding treasury shares)</b>	<b>2,714,646</b>	<b>2,675,869</b>	<b>2,665,147</b>

## 10. Exchange Rates

One Australian dollar equals	Income Statement - average Half Year to			Balance Sheet - spot As at		
	Mar 18	Sep 17	Mar 17	31 Mar 18	30 Sep 17	31 Mar 17
British Pounds	0.5721	0.5955	0.6081	0.5476	0.5847	0.6123
Euros	0.6463	0.6777	0.7033	0.6241	0.6658	0.7162
United States Dollars	0.7775	0.7702	0.7543	0.7684	0.7842	0.7646
New Zealand Dollars	1.0924	1.0734	1.0601	1.0627	1.0866	1.0944

## 11. ASX Appendix 4D

Cross Reference Index	Page
Results for Announcement to the Market (4D Item 2)	Inside front cover
Dividends (4D Item 5)	66
Dividend dates (4D Item 5)	Inside front cover
Dividend Reinvestment Plan (4D Item 6)	66
Net tangible assets per ordinary share (4D Item 3)	95
Details of entities over which control has been gained or lost (4D Item 4)	n/a
The Group has not gained or lost control over any material entities during the half year ended 31 March 2018.	
Details of associates and joint venture entities (4D item 7)	n/a
The Group held no material investments in associates or joint venture entities as at 31 March 2018.	

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**Section 7**

**Glossary of Terms**



## Glossary of Terms

Terms	Description
12-months expected credit losses (ECL)	The portion of lifetime expected credit losses that represent the expected losses arising from default events that could occur within 12 months of the reporting date.
90+ days past due and gross impaired assets to GLAs	Loans and advances 90+ days past due but not impaired and impaired assets expressed as a percentage of Gross loans and acceptances. Calculated as the sum of 'Loans and advances past due but not impaired (Past due over 90 days)' and 'Gross impaired assets' divided by Gross loans and acceptances.
90+ days past due Assets	Assets 90+ days past due consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due.
AASB	Australian Accounting Standards Board.
ADI	Authorised Deposit-taking Institution.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to ADIs.
ASIC	Australian Securities and Investments Commission.
Assets under management (AUM)	Represents the market value of funds for which the Group acts as Funds Adviser or Investment Manager.
ASX	Australian Securities Exchange Limited.
Available Stable Funding (ASF)	The portion of capital and liabilities expected to be reliably provided over a one-year time horizon, measured based on the broad characteristics of the relative stability of an ADI's funding sources, including the contractual maturity of its liabilities and the differences in propensity of different types of funding providers to withdraw their funds.
Average equity (adjusted)	Average shareholders' equity, excluding non-controlling interests and other equity instruments, when calculated on a statutory basis. When calculated on a cash earnings basis, Average equity (adjusted) is further adjusted for Treasury shares. Refer to 'Average balances' on page 2 for further information in relation to the calculation of average balances.
Average interest earning assets	The average balance of assets held by the Group over the period that generate interest income. Refer to 'average balances' on page 2 for further information in relation to the calculation of average balances.
Banking	Banking operations include the Group's: - Retail and Non-Retail deposits, lending and other banking services within Business and Private Banking, Consumer Banking and Wealth, Corporate and Institutional Banking, and New Zealand Banking; - Wholesale operations comprising Global Capital Markets, Specialised Finance and Financial Institutions business within Corporate and Institutional Banking and New Zealand Banking; and - Treasury operations within Corporate Functions and Other.
Bank levy	A levy imposed under the <i>Major Bank Levy Act 2017 (Cth)</i> on ADIs with total liabilities of more than \$100 billion.
Basel III	Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and is effective for Australian Banks from 1 January 2013.
BNZ	Bank of New Zealand.
Business lending	Lending to non-retail customers including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
Cash earnings	Refer to page 2, Section 1 - Profit Reconciliation for information about, and the definition of, cash earnings.
Cash earnings on risk-weighted assets	Calculated as cash earnings (annualised) divided by average risk-weighted assets. Average risk-weighted assets are calculated as the average of the current and previous two quarters' risk-weighted assets.
Cash earnings per share - basic	Calculated as cash earnings adjusted for distributions on other equity instruments, divided by the weighted average number of ordinary shares adjusted to include treasury shares held in the Group's consolidated investments businesses (until the Successor Fund Merger on 1 July 2016).
Cash earnings per share - diluted	Calculated as cash earnings adjusted for distributions on other equity instruments and interest expense on dilutive potential ordinary shares. This adjusted cash earnings is divided by the weighted average number of ordinary shares, adjusted to include treasury shares held in the Group's consolidated investments businesses (until the Successor Fund Merger on 1 July 2016) and dilutive potential ordinary shares.
Cash return on equity (ROE)	Cash earnings after tax expressed as a percentage of Average equity (adjusted), calculated on a cash earnings basis. See 'Information about Cash Earnings and other Non-IFRS Measures' on page 2 for more information in relation to cash earnings.
CLF	Committed Liquidity Facility.
Common Equity Tier 1 (CET1) capital	Common Equity Tier 1 (CET1) capital is recognised as the highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of common shares; retained earnings; undistributed current year earnings; as well as other elements as defined under APS111 "Capital Adequacy: Measurement of Capital".
Cost to income ratio (CTI)	Cost to income ratio (CTI) represents operating expenses as a percentage of operating revenue.
Common Equity Tier 1 ratio	Common Equity Tier 1 as defined by APRA divided by risk-weighted assets.
Continuing operations	Continuing operations are the components of the Group which are not discontinued operations.
Core assets	Represents gross loans and advances including acceptances, financial assets at fair value, and other debt instruments at amortised cost (classified in comparative periods as investments held to maturity).
Customer deposits	The sum of interest bearing, non-interest bearing and term deposits (including retail and corporate deposits). Calculated as the sum of 'Term deposits', 'On-demand and short-term deposits' and 'Deposits not bearing interest'.
Customer Funding Index (CFI)	Customer deposits (excluding certain short dated institutional deposits used to fund liquid assets) divided by core assets.
Customer Risk Management	Activities to assist customers to manage their financial risks (predominantly foreign exchange and interest rate risks).
CYBG	CYBG PLC.
CYBG Group	CYBG PLC and its controlled entities.
Discontinued operations	Discontinued operations are a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, which is part of a single co-ordinated plan for disposal.
Distributions	Payments to holders of other equity instrument issues such as National Income Securities and Trust Preferred Securities.
Dividend payout ratio	Dividends paid on ordinary shares divided by cash earnings per share.
Earnings per share (EPS)	Basic and diluted earnings per share calculated in accordance with the requirements of AASB 133 "Earnings per Share".
Effective tax rate	Income tax expense divided by profit before income tax expense.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

Terms	Description
Fair value and hedge ineffectiveness	Represents volatility from the Group's assets and liabilities designated at fair value, hedge accounting ineffectiveness from designated accounting hedge relationships, or from economic hedges where hedge accounting has not been applied.
Forward Looking Adjustment (FLA)	The portion of expected credit losses that is derived from forward looking customer and macro-economic data.
FSB	Financial Stability Board.
FSI	Financial System Inquiry.
Full-time equivalent employees (FTEs)	Includes all full-time employees, part-time, temporary, fixed term and casual employee equivalents, as well as agency temporary employees and external contractors either self-employed or employed by a third party agency. Note: This does not include consultants, IT professional services, outsourced service providers and non-executive directors.
Funds under management and administration (FUM/A)	Represents the market value of funds administered by the Group excluding AUM.
G-SIB	Global Systemically Important Bank.
General reserve for credit losses (GRCL)	APRA Prudential Standard APS 220 "Credit Quality" requires a reserve to be held to cover credit losses estimated but not certain to arise in the future over the full life of all individual facilities. The general reserve for credit losses (GRCL) is calculated using a prudential expected loss methodology that differs to that used for AASB 9 "Financial Instruments" expected credit loss provisions. The GRCL represents an appropriation of retained profits to non-distributable reserves when the regulatory reserve is greater than the accounting provision. The purpose of the GRCL is to provide the Group with freely available capital which can be used to meet credit losses that may subsequently materialise.
Gross loans and acceptances (GLAs)	The total loans, advances and acceptances, including unearned and deferred fee income, excluding associated provisions for expected credit losses. Calculated as the sum of 'Acceptances', 'Loans at fair value', and 'Total gross loans and advances'.
Group	NAB and its controlled entities.
High Quality Liquid Assets (HQLA)	Eligible assets that include cash, balances held with Central Banks along with securities issued by highly rated Governments and supranationals.
Housing lending	Mortgages secured by residential properties as collateral.
IFRS	International Financial Reporting Standards.
Impaired assets	Consist of: - Retail loans (excluding unsecured 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 and / or there is sufficient doubt about the ultimate collectability 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 also classified as impaired assets when they become 180 days past due (if not written off).
IRB approach	The internal ratings based (IRB) approach refers to the processes employed by the Group to estimate credit risk. This is achieved through the use of internally developed models to assess the potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.
Jaws	The difference between the percentage growth in revenue on the preceding period and the percentage growth in the expenses on the preceding period, calculated on a cash earnings basis.
Leverage Ratio	The Leverage Ratio is a simple, transparent, non-risk based supplementary measure that use exposures to supplement the risk-weighted assets based capital requirements and is prepared in accordance with APRA's Prudential Standard APS111 "Capital Adequacy: Measurement of Capital".
Lifetime expected credit losses (ECL)	The expected credit losses that result from all possible default events over the expected life of a financial instrument.
Liquidity Coverage Ratio (LCR)	LCR measures the amount of high quality liquid assets held that can be converted to cash easily and immediately in private markets, to total net cash flows required to meet the Group's liquidity needs for a 30 calendar day liquidity stress scenario.
Marketable debt securities	Comprises trading securities, debt instruments at fair value through other comprehensive income and other debt instruments at amortised cost (classified in comparative periods as investments - available for sale and investments - held to maturity respectively).
NAB	National Australia Bank Limited ABN 12 004 044 937.
NAB Risk Management	Management of interest rate risk in the banking book, wholesale funding and liquidity requirements and trading market risk to support the Group's franchises.
Nautilus	Nautilus Insurance Pte Ltd (Nautilus), a wholly owned subsidiary of the Group, is a captive insurance company domiciled in Singapore.
Net interest margin (NIM)	Net interest income derived on a cash earnings basis expressed as a percentage of Average interest earning assets.
Net profit attributable to non-controlling interest	Reflects the allocation of profit to non-controlling interests in the Group.
Net profit attributable to owners of NAB	Represents the Group's statutory profit / (loss) after tax and reflects the amount of net profit / (loss) that is attributable to owners.
Net Stable Funding Ratio (NSFR)	The amount of available stable funding (ASF) relative to the amount of required stable funding (RSF).
Other banking products	Personal lending, credit cards (consumer and commercial), investment securities and margin lending.
PRA	United Kingdom Prudential Regulation Authority.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
Required Stable Funding (RSF)	The amount of stable funding an ADI is required to hold measured as a function of the liquidity characteristics and residual maturities of the various assets held by an ADI including off-balance sheet (OBS) exposures.
Restructuring-related costs	Consist of personal, occupancy, software impairment and other general charges recognised as part of acceleration of Group's strategy announced in November 2017.
Risk-weighted assets (RWA)	A quantitative measure of the Group's risk, required by the APRA risk-based capital adequacy framework, covering credit risk for on- and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
Securitisation	Structured finance technique which involves pooling, packaging cash-flows and converting financial assets into securities that can be sold to investors.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Statutory ROE	Statutory earnings after tax expressed as a percentage of Average equity (adjusted), calculated on a statutory basis.
Successor Fund Merger	The transfer of five Group super funds into one new super fund called the MLC Super Fund, which was completed on 1 July 2016.
Term Funding Index (TFI)	Term wholesale funding (with a remaining maturity to first call date greater than 12 months) divided by core assets.

<b>Terms</b>	<b>Description</b>
Tier 1 capital	Tier 1 capital comprises Common Equity Tier 1 (CET1) capital and instruments issued by the Group that meet the criteria for inclusion as Additional Tier 1 capital set out in APS111 "Capital Adequacy: Measurement of Capital".
Tier 1 capital ratio	Tier 1 capital as defined by APRA divided by risk-weighted assets.
Tier 2 capital	Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses; as set out in APS111 "Capital Adequacy: Measurement of Capital".
TLAC	Total Loss-Absorbing Capacity.
Total average assets	The average balance of assets held by the Group over the period, adjusted for disposed operations. Disposed operations include any operations that will not form part of the continuing Group. These include operations sold and those which have been announced to the market that have yet to reach completion. Refer to 'Average balances' on page 2 for further information in relation to the calculation on average balances.
Total capital ratio	Total capital ratio is the sum of Tier 1 capital and Tier 2 capital, as defined by APRA, divided by risk-weighted assets.
Treasury shares	Shares in the NAB held in the Group's consolidated investments businesses (up to the Successor Fund Merger on 1 July 2016) and in trust by a controlled entity of the Group to meet the requirements of employee incentive schemes. The unrealised mark-to-market movements arising from changes in the share price, dividend income and realised profit and losses arising from the sale of shares held by the Group's consolidated investment business are eliminated for statutory reporting purposes.
Underlying Profit	Underlying profit is a performance measure used by NAB. It represents cash earnings before various items, including income tax expense and the credit impairment charge as presented in the table on page 3. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards and is not audited or reviewed in accordance with Australian Auditing Standards.
Weighted average number of ordinary shares	Calculated in accordance with the requirements of AASB 133 "Earnings per Share".



