National Australia Bank

2014 Full Year Results

Incorporating the requirements of Appendix 4E

This full year results announcement incorporates the preliminary final report given to the Australian Securities Exchange (ASX) under Listing rule 4.3A.

National Australia Bank Limited ABN 12 004 044 937 (the 'Company')

Results for announcement to the market

Report for the year ended 30 September 2014

						30 September 2014 $m
Revenue from ordinary activities [(1)]	page 70	up	5.7%	*	to	19,248
Profit after tax from ordinary activities attributable to owners of the Company [(2)]	page 70	down	1.1%	*	to	5,295
Net profit attributable to owners of the Company [(2) (3)]	page 70	down	1.1%	*	to	5,295

* *On prior corresponding period (twelve months ended 30 September 2013).*

[(1)] *Required to be disclosed by ASX Listing Rule Appendix 4E. Reported as the sum of the following items from the Group's income statement: net interest income $13,739 million, net life insurance income $542 million and total other income $4,967 million. On a cash earnings basis revenue increased by 1.9%.*

[(2)] *The September 2013 results have been restated for the impact of adopting new accounting standards, as detailed in the Principal Accounting Policies on page 76.*

[(3)] *Net profit attributable to owners of the Company was down 1.1% to $5,295 million, reflecting additional provisions relating to legacy UK conduct related matters and write-downs to the carrying value of software assets and several tax related items, combined with higher operating expenses, more than offsetting higher revenue and improved bad and doubtful debts.*

Dividends	Amount per share cents	Franked amount per share %
Final dividend	99	100
Interim dividend	99	100
Record date for determining entitlements to the interim dividend		11 November 2014

Highlights [(4)]

Group cash earnings	down	9.8%	Cash earnings decreased by $563 million or 9.8% compared to the September 2013 year. This result was materially impacted by $1,504 million taken in additional provisions relating to legacy UK conduct related matters, write-downs to the carrying value of software assets and several other tax related items. Details of these specified items and comparatives that impacted the September 2013 year, can be found on page 20 of Section 3, of the 2014 Full Year Results. Excluding the impact of these specified items and foreign exchange rate movements cash earnings increased by $564 million or 9.5% reflecting lower charges for bad and doubtful debts and higher revenue driven by volume growth in housing lending, partially offset by higher expenses to support transformational and regulatory projects and continued investment in the business. The difference between cash earnings and statutory net profit attributable to the owners of the Company was primarily due to distributions. Refer to information on cash earnings on page 2 of Section 1, of the 2014 Full Year Results.
Cash return on equity (ROE)	down to	11.8%	Cash ROE decreased by 230 basis points due to lower earnings, combined with higher levels of capital being held following the transition to Basel III.
Diluted cash earnings per share (cents)	down to	216	Diluted cash earnings per share decreased by 11.0%.
Banking cost to income ratio	up	930 bps	The Group’s banking cost to income ratio increased by 930 basis points to 53%.
Common Equity Tier 1 capital ratio	up	20 bps	The Common Equity Tier 1 capital ratio (Basel III basis) is up 20 basis points to 8.63%.
Full time equivalent employees	up	689	Full time equivalent employees increased to 42,853 due to additional FTE to drive volume growth and support the transformational agenda and regulatory projects.

[(4)] *All growth rates are calculated on a cash earnings basis on the prior corresponding period (twelve months ended 30 September 2013).*

A Glossary of Terms is included in Section 7.

A reference in this Appendix 4E to the 'Group' is a reference to the Company and its controlled entities. All currency amounts are expressed in Australian dollars unless otherwise stated. References in this document to the September 2014 year are references to the twelve months ended 30 September 2014. Other twelve month periods are referred to in a corresponding manner. National Australia Bank Limited's consolidated financial statements, prepared in accordance with the Corporations Act 2001 (Cth), are included in Section 5. See page 115 for a complete index of ASX Appendix 4E requirements.

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Full Year Results

2014

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National Australia Bank Limited
ABN 12 004 044 937

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Thursday, 30 October 2014

NAB 2014 Full Year Results

Strong asset quality and sound core franchise

Key Points

Results for the 30 September 2014 full year are compared with 30 September 2013 full year unless otherwise stated.

- On a statutory basis, net profit attributable to owners of the Company was $5.30 billion, a decrease of $60 million or 1.1%.
- Cash earnings[1] declined to $5.18 billion, which is 9.8% below the September 2013 full year due to earnings adjustments announced on 9 October 2014 relating to UK conduct provisions, capitalised software impairment, deferred tax asset provisions and R&D tax policy change totalling $1.5 billion after tax for the 30 September 2014 full year. For purposes of comparability, cash earnings for the September 2013 full year have also been restated for inclusion of UK payment protection insurance (PPI) conduct costs in cash earnings. Excluding these adjustments and prior period UK conduct costs relating to PPI and interest rate hedging products (IRHP), cash earnings rose 12.4% over the year. The main difference between net profit attributable to owners of the Company on a statutory basis and cash earnings relates to distributions.
- On a cash earnings basis:
  - Revenue increased by approximately 1.9% with higher lending balances, partly offset by a lower net interest margin (NIM) and weaker Markets and Treasury[2] income. Excluding the impact of changes in foreign exchange rates revenue declined 1.1%.
  - Expenses rose 21% due to the impact of higher UK conduct provisions, capitalised software impairment and R&D tax policy change. Excluding these items and prior period UK conduct charges relating to PPI and IRHP, expenses rose 4.5% over the year or 0.7% excluding the impact of changes in foreign exchange rates.
  - Improved asset quality and deliberate portfolio choices made over recent years have resulted in a total charge to provide for bad and doubtful debts (B&DDs) for the year of $877 million, down 54.7% on 30 September 2013 due primarily to lower charges in Australian Banking and NAB UK CRE. The charge includes a $50 million release from the Group economic cycle adjustment and $99 million release from the NAB UK CRE overlay.
- The Group maintains a well diversified funding profile and has raised approximately $28.2 billion of term wholesale funding (including $7 billion secured funding) in the 2014 financial year. The weighted average term to maturity of the funds raised by the Group over the 2014 financial year was 5.1 years. The stable funding index was 90.4% at 30 September 2014, a 1.2 percentage point increase on 30 September 2013.

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[1] Cash earnings is not a statutory financial measure and does not represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a cash flow statement. Refer to note on cash earnings on page 4 of this document.

[2] Markets and Treasury income represents Customer Risk and NAB Risk Management income.

- The Group's Basel III Common Equity Tier 1 (CET1) ratio was 8.63% as at 30 September 2014, an increase of 20 basis points from 30 September 2013 and broadly stable compared to 31 March 2014. As announced in the March 2014 half year results, the Group will target a CET1 ratio of 8.75% - 9.25% from 1 January 2016, based on current regulatory requirements.
- The final dividend has been maintained at 99 cents, fully franked, and a dividend reinvestment plan (DRP) discount of 1.5% will be offered with no participation limit. NAB has entered into an agreement to have the DRP on the final dividend partially underwritten to an amount of $800 million over and above the expected participation in the DRP. Assuming a DRP participation rate of 35%, these initiatives will provide an expected increase in share capital of approximately $1.6 billion, which is equivalent to a 44 basis point increase in NAB's CET1 ratio.

Executive Commentary

"While our Australia and New Zealand franchises are in good shape, it is disappointing to record a full year result that includes $1.5 billion after tax in UK conduct provisions and other impairments," NAB Group Chief Executive Officer Andrew Thorburn said.

"We know there is value in focusing on the core business and in building a strong Australian and New Zealand franchise with real clarity around a customer-focused strategy that is executed well. Our Executive Leadership Team is focused on delivering a better experience for our customers and better returns for our shareholders.

"Within the Australian Banking business I am pleased with the ongoing momentum in Personal Banking and the more stable performance from Business Banking in the second half of this year. Excluding the more volatile Markets and Treasury income, Australian Banking revenue grew 1.8% over the September 2014 half year. A further reduction in the charge for B&DDs reinforces the benefits of our strategy to reduce the Australian lending risk profile.

"While satisfied with the progress our Australian business is making, there is more we can do. It is essential we continue to invest in core businesses where we have real competitive advantage, especially housing lending and, in Business Banking our SME, agriculture, government and education, and health franchises. More broadly, we have a number of solid businesses from which to build a stronger bank.

"NAB Wealth has also had an improved year, recording cash earnings growth of 13.4% off the back of strong growth in Investment earnings and an increase in Insurance earnings. Wealth products are an essential part of our customer offering, however returns are below acceptable levels and as a result we are evaluating a number of options to improve the returns of this business.

"Technology is a critical enabler of our business, which is why I am pleased to announce that over 2015 and 2016 the benefits of our banking platform upgrade will become increasingly apparent to our retail banking customers and around one third of our business customers who take out new personal banking products. Benefits include a single application for multiple products, loan application progress checked on-line or via regular updates and faster approval times. Our staff will also benefit from less or no data entry and straight through processing. Future decisions on how we invest in technology will be based on what our customers need, what we can afford and what is doable.

"Pleasingly we have also made good progress on legacy assets and have been able to accelerate our exit from non-core businesses. In July we announced the partial sale (£625 million) of the NAB UK CRE portfolio and in October began the sale process of Great Western Bank with the IPO of a 31.8% stake.

“Our clear focus is on our Australian and New Zealand franchises and providing a better customer experience, and as a result we need greater urgency dealing to our remaining low returning assets. In relation to exiting UK Banking this means we are now examining a broader range of options including those provided by public markets.

“We are very clear on our priorities for the next year and will focus our energy and resources on improving our customers’ experience, building better momentum in priority segments of our Australian Banking business, maintaining our balance sheet strength, accelerating progress on our low returning assets and closing the ROE gap to peers.”

Business Commentary

Australian Banking cash earnings were flat on the September 2013 full year at $4.9 billion, with modest revenue decline and higher expenses offset by further falls in the charge for B&DDs. Revenue fell 1.4% reflecting lower Markets and Treasury income and lower NIM given competitive pressure. Volume growth was solid, underpinned by ongoing market share gains in housing lending and a slight improvement in business lending growth. Excluding the impact of Markets and Treasury income, revenue fell 0.6% over the year but increased 1.8% over the six months to September 2014. Expenses rose 3.7% over the year with increased project spend and volume related growth, but were stable over the half year.

NAB Wealth cash earnings increased 13.4% on the September 2013 full year to $365 million driven largely by higher Investment earnings, with strong growth in funds under management partly offset by lower margins reflecting a shift in the mix of new business. Insurance earnings also increased over the year benefitting from improved claims and stable lapse performance. Inforce premiums grew 4.9% mainly due to improved pricing in Group insurance products. Closer integration with Australian Banking continues to gain traction with accelerating growth in sales of Masterkey Business Super via Business Banking channels and improved sales capability in the Retail network driving higher cross sell rates.

NZ Banking local currency cash earnings rose 2.4% on the September 2013 full year to NZ$807 million reflecting revenue growth and well contained expense growth. Business lending experienced steady growth, and there was a solid pick-up in housing lending growth in the September 2014 half year. Asset quality metrics improved and the charge for B&DDs fell over the year, but increased over the six months to September 2014 due to a small increase in specific charges.

UK Banking local currency cash earnings[3] rose strongly over the year to £158 million reflecting a materially lower charge for B&DDs consistent with steady improvements in the UK economy. Revenue remains subdued with strong growth in housing lending and higher margins benefitting from reduced funding and deposit costs, offset by lower business lending and weaker fee income. Lower margins compared with the March 2014 half year reflect timing of the Financial Services Compensation Scheme (FSCS) levy. Operating expenses were well managed despite increased marketing and project-related expenditure.

The NAB UK CRE run-off portfolio reported local currency cash earnings of £23 million in the September 2014 full year compared with a £239 million loss in the prior year. The major driver of the improved performance was a significantly reduced loan loss charge which included a £55 million release from the NAB UK CRE overlay of which £30 million occurred in the September 2014 half year. The result also benefited from a small gain on the sale of a £625 million portfolio of mainly impaired loans, as previously announced. The portfolio continues to decline with the balance reducing by £1.1 billion over the six months to September 2014 to £2.2 billion.

[3] UK Banking cash earnings exclude conduct charges relating to PPI and IRHP which are included in Corporate Functions and Other.

IFRS 9 impacts

In July 2014 the accounting standard IFRS9 was issued and the Group has the intention of early adopting the Australian equivalent standard AASB 9 from 1 October 2014. Adoption of AASB 9 will have the impact of increasing our Provision for Doubtful Debts for amortised and fair value loans with a corresponding adjustment through retained earnings, resulting in an increase in the collective provision coverage ratio. Additionally the Group will reclassify certain assets including those in the Held to Maturity and Available for Sale categories to Fair Value, again with adjustments taken through retained earnings. Implementation remains contingent upon a number of items including the issue of AASB 9 by the Australian Accounting Standards Board expected shortly.

Group Asset Quality

Group asset quality metrics continued to improve over the period. The ratio of Group 90+ days past due and gross impaired assets to gross loans and acceptances of 1.19% at 30 September 2014 is 33 basis points lower compared to 31 March 2014 and 50 basis points lower compared to 30 September 2013.

The ratio of collective provision to credit risk weighted assets was 0.83% at 30 September 2014 compared to 0.91% at 31 March 2014, with drivers of this decline including improved asset quality, continued growth in housing lending and release from the Group economic cycle adjustment of $50 million during the period. The ratio of specific provisions to impaired assets was 35.3% at 30 September 2014 as compared to 34.8% at 31 March 2014.

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Disclaimer

This announcement contains certain forward-looking statements. The words "anticipate", "believe", "expect", "project", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, 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. 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 Annual Financial Report.

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 is set out on pages 2 to 8 of the 2014 Full Year Results Announcement under the heading "Profit Reconciliation".

The Group's results and Review of Divisional Operations and 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 and is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. "Cash earnings" is calculated by excluding some items which are included within the statutory net profit attributable to owners of the Company. Section 5 of the 2014 Full Year Results includes the Consolidated Income Statement of the Group, including statutory net profit attributable to owners of the Company. The Group's audited financial statements, prepared in accordance with the Corporations Act 2001 (Cth) and Australian Accounting Standards will be published in its 2014 Annual Financial Report on 17 November 2014.

Section 1

Profit Reconciliation

Information about Cash Earnings 2

Information about Cash Earnings

This section provides information about cash earnings, a key performance measure used by NAB, including information on how cash earnings is calculated and reconciliation of cash earnings to net profit attributable to owners of the Company (statutory net profit).

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 some items which are included within the statutory net profit attributable to owners of the Company. Cash earnings does not purport to represent the cashflows, 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 nor audited or reviewed in accordance with Australian Auditing Standards.

Cash earnings is defined as net profit attributable to owners of the Company, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. In September 2014, cash earnings has been adjusted for the following:

- Distributions
- Treasury shares
- Fair value and hedge ineffectiveness
- Deferred Acquisition Cost (DAC) discount rate variation
- Amortisation of acquired intangible assets.

In prior comparative periods, cash earnings has been adjusted for litigation expense and recovery. This item did not recur as an adjustment in cash earnings for the September 2014 year.

Reconciliation to Statutory Profit

Section 5 of the 2014 Year End Results Announcement includes the Group's Income Statement, including statutory net profit. The Group's audited financial statements, prepared in accordance with the *Corporations Act* 2001 (Cth) and Australian Accounting Standards, will be published in its 2014 Annual Financial Report on 17 November 2014.

A reconciliation of cash earnings to statutory net profit attributable to owners of the Company (statutory net profit) is set out on page 3, and full reconciliations between statutory net profit and cash earnings are included in this section on pages 5-8 of the 2014 Full Year Results Announcement.

Page 4 contains a description of each non-cash earnings item for September 2014 and for the prior comparative periods.

Underlying Profit

Underlying profit is a performance measure used by NAB. It represents cash earnings before various items, including income tax expense and the charge to provide for bad and doubtful debts 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 nor audited or reviewed in accordance with Australian Auditing Standards.

Group Results

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

	Year to			Half Year to		
	Sep 14 $m	**Sep 13 (1) $m**	**Sep 14 v Sep 13 %**	**Sep 14 $m**	**Mar 14 $m**	**Sep 14 v Mar 14 %**
Net interest income	**13,775**	13,407	2.7	**6,932**	6,843	1.3
Other operating income	**5,104**	5,125	(0.4)	**2,475**	2,629	(5.9)
IoRE	**34**	31	9.7	**19**	15	26.7
Net operating income	**18,913**	18,563	1.9	**9,426**	9,487	(0.6)
Operating expenses	**(10,180)**	(8,410)	(21.0)	**(5,724)**	(4,456)	(28.5)
Underlying profit	**8,733**	10,153	(14.0)	**3,702**	5,031	(26.4)
Charge to provide for bad and doubtful debts	**(877)**	(1,934)	54.7	**(349)**	(528)	33.9
Cash earnings before tax and distributions	**7,856**	8,219	(4.4)	**3,353**	4,503	(25.5)
Income tax expense	**(2,492)**	(2,284)	(9.1)	**(1,229)**	(1,263)	2.7
Cash earnings before distributions	**5,364**	5,935	(9.6)	**2,124**	3,240	(34.4)
Distributions	**(180)**	(188)	4.3	**(90)**	(90)	-
Cash earnings	**5,184**	5,747	(9.8)	**2,034**	3,150	(35.4)
Non-cash earnings items (after tax):						
Distributions	**180**	188	(4.3)	**90**	90	-
Treasury shares	**(43)**	(413)	89.6	**70**	(113)	large
Fair value and hedge ineffectiveness	**83**	(151)	large	**311**	(228)	large
DAC discount rate variation	**(20)**	22	large	**(21)**	1	large
Litigation expense/recovery	**-**	39	large	**-**	-	-
Amortisation of acquired intangible assets	**(89)**	(77)	(15.6)	**(45)**	(44)	(2.3)
Net profit attributable to owners of the Company	**5,295**	5,355	(1.1)	**2,439**	2,856	(14.6)

(1) *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes, and for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

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 September 2014 full year is to reduce cash earnings by $180 million.

Treasury Shares

For statutory reporting purposes, the Group eliminates the effect on statutory income of the Group's life insurance business investment in National Australia Bank Limited shares. The elimination includes unrealised mark-to-market movements arising from changes in the Company's share price, dividend income and realised profits and losses on the disposal of shares. In determining cash earnings in the September 2014 year, a net gain of $22 million ($43 million after tax) attributable to these adjustments has been included to ensure there is no asymmetric impact on profit because the treasury shares relate to life policy liabilities which are revalued in deriving income.

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 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 September 2014 year there was an increase in statutory profit of $118 million ($83 million after tax) from fair value and hedge ineffectiveness. This was largely due to the change in the fair value of derivatives used to manage the Group's long-term funding from movements in spreads between Australian and overseas interest rates, and mark-to-market movements of assets and liabilities designated at fair value reflecting current market conditions. In particular, the impact of interest rate and foreign exchange movements has resulted in mark-to-market gains on these derivatives and term funding issuances.

DAC Discount Rate Variation

The DAC discount rate variation represents the impact on earnings of the change in value of deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from a movement in inflation and the risk free discount rate. This item resulted in a pre-tax loss of $29 million ($20 million after tax).

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 core deposit intangibles, mortgage servicing rights, brand names, value of business and contracts in force.

The following non-cash earnings item was reported for 30 September 2013.

Litigation Expense and Recovery

Following the agreement to settle the Bell Resources litigation, the Group recognised an $80 million receivable during the 2013 financial year relating to settlement proceeds. The recovery was partially offset by litigation expenses of $25 million recognised during the March 2013 half year, relating to the final settlement of a class action against the Group, generating a net recovery of $55 million ($39 million after tax).

Reconciliation between Statutory Net Profit after Tax and Cash Earnings

Year ended 30 September 2014	Statutory Net Profit $m	NAB Wealth adj. [1] $m	Distri-butions $m	Treasury shares $m	Fair value and hedge ineffec. $m	DAC disc. rate $m	Amortisation of acquired intangible assets $m	Cash Earnings $m
Net interest income	13,739	36	-	-	-	-	-	**13,775**
Net life insurance income	542	(593)	-	22	-	29	-	**-**
Other operating income	4,967	217	-	-	(96)	-	16	**5,104**
IoRE	-	34	-	-	-	-	-	**34**
Net operating income	19,248	(306)	-	22	(96)	29	16	**18,913**
Operating expenses	(10,438)	159	-	-	-	-	99	**(10,180)**
Operating profit/(loss) pre-charge to provide for doubtful debts	8,810	(147)	-	22	(96)	29	115	**8,733**
Charge to provide for bad and doubtful debts	(855)	-	-	-	(22)	-	-	**(877)**
Operating profit/(loss) before tax	7,955	(147)	-	22	(118)	29	115	**7,856**
Income tax (expense)/benefit	(2,657)	144	-	21	35	(9)	(26)	**(2,492)**
Operating profit/(loss) before distributions and non-controlling interest	5,298	(3)	-	43	(83)	20	89	**5,364**
Net profit - non-controlling interest	(3)	3	-	-	-	-	-	**-**
Distributions	-	-	(180)	-	-	-	-	**(180)**
Net profit/(loss) attributable to owners of the Company	**5,295**	**-**	**(180)**	**43**	**(83)**	**20**	**89**	**5,184**

(1) *NAB Wealth statutory results include certain disclosures which do not exist in the cash earnings view, including Net Life Insurance Income ("NLII") and policyholder amounts. The following adjustments are made to the statutory results for cash earnings purposes:*
a) NLII is a statutory disclosure requirement only, and as such, all items shown under NLII are reclassified for cash earnings purposes, as follows:
i) Most Policyholder amounts offset within Net Life Insurance Income in the statutory results, except for Policyholder tax which is reclassified and offset within NLII.
ii) All remaining NLII amounts are then reclassified to Other operating income, IORE and Operating expenses.
b) Volume related expenses relating to entities outside of the life company are reclassified from Operating expenses and Net interest income to Other operating income, consistent with the cash earnings view.

Profit Reconciliation

Year ended 30 September 2013	Statutory Net Profit $m	NAB Wealth adj. (1) $m	Distri-butions $m	Treasury shares $m	Fair value and hedge ineffec. $m	DAC disc. rate $m	Litigation recovery $m	Amortisation of acquired intangible assets $m	PPI and Customer redress provision adj. (2) $m	Cash Earnings $m
Net interest income	13,351	56	-	-	-	-	-	-	-	**13,407**
Net life insurance income	479	(914)	-	467	-	(32)	-	-	-	**-**
Other operating income	4,373	216	-	-	313	-	-	19	204	**5,125**
IoRE	-	31	-	-	-	-	-	-	-	**31**
Net operating income	18,203	(611)	-	467	313	(32)	-	19	204	**18,563**
Operating expenses	(8,305)	75	-	-	-	-	(55)	79	(204)	**(8,410)**
Operating profit/(loss) pre-charge to provide for doubtful debts	9,898	(536)	-	467	313	(32)	(55)	98	-	**10,153**
Charge to provide for bad and doubtful debts	(1,810)	-	-	-	(124)	-	-	-	-	**(1,934)**
Operating profit/(loss) before tax	8,088	(536)	-	467	189	(32)	(55)	98	-	**8,219**
Income tax (expense)/benefit	(2,725)	528	-	(54)	(38)	10	16	(21)	-	**(2,284)**
Operating profit/(loss) before distributions and non-controlling interest	5,363	(8)	-	413	151	(22)	(39)	77	-	**5,935**
Net profit - non-controlling interest	(8)	8	-	-	-	-	-	-	-	**-**
Distributions	-	-	(188)	-	-	-	-	-	-	**(188)**
Net profit/(loss) attributable to owners of the Company	**5,355**	**-**	**(188)**	**413**	**151**	**(22)**	**(39)**	**77**	**-**	**5,747**

(1) *NAB Wealth statutory results include certain disclosures which do not exist in the cash earnings view, including Net Life Insurance Income ("NLII") and policyholder amounts. The following adjustments are made to the statutory results for cash earnings purposes:*
a) NLII is a statutory disclosure requirement only, and as such, all items shown under NLII are reclassified for cash earnings purposes, as follows:
i) Most Policyholder amounts offset within Net Life Insurance Income in the statutory results, except for Policyholder tax which is reclassified and offset within NLII.
ii) All remaining NLII amounts are then reclassified to Other operating income, IORE and Operating expenses.
b) Volume related expenses relating to entities outside of the life company are reclassified from Operating expenses and Net interest income to Other operating income, consistent with the cash earnings view.

(2) *Customer redress for Payment Protection Insurance have been recorded as operating expenses for cash earnings to be consistent with presentation in 2014. For statutory purpose these provisions were recorded as a charge to other operating income in 2013.*

Profit Reconciliation

Half Year ended 30 September 2014	Statutory Net Profit $m	NAB Wealth adj. [1] $m	Distri-butions $m	Treasury shares $m	Fair value and hedge ineffec. $m	DAC disc. rate $m	Amortisation of acquired intangible assets $m	Cash Earnings $m
Net interest income	6,915	17	-	-	-	-	-	**6,932**
Net life insurance income	328	(262)	-	(96)	-	30	-	**-**
Other operating income	2,801	96	-	-	(423)	-	1	**2,475**
IoRE	-	19	-	-	-	-	-	**19**
Net operating income	10,044	(130)	-	(96)	(423)	30	1	**9,426**
Operating expenses	(5,882)	99	-	-	-	-	59	**(5,724)**
Operating profit/(loss) pre-charge to provide for doubtful debts	4,162	(31)	-	(96)	(423)	30	60	**3,702**
Charge to provide for bad and doubtful debts	(332)	-	-	-	(17)	-	-	**(349)**
Operating profit/(loss) before tax	3,830	(31)	-	(96)	(440)	30	60	**3,353**
Income tax (expense)/benefit	(1,391)	31	-	26	129	(9)	(15)	**(1,229)**
Operating profit/(loss) before distributions and non-controlling interest	2,439	-	-	(70)	(311)	21	45	**2,124**
Net profit - non-controlling interest	-	-	-	-	-	-	-	**-**
Distributions	-	-	(90)	-	-	-	-	**(90)**
Net profit/(loss) attributable to owners of the Company	**2,439**	**-**	**(90)**	**(70)**	**(311)**	**21**	**45**	**2,034**

[1] *NAB Wealth statutory results include certain disclosures which do not exist in the cash earnings view, including Net Life Insurance Income ("NLII") and policyholder amounts. The following adjustments are made to the statutory results for cash earnings purposes:*
a) NLII is a statutory disclosure requirement only, and as such, all items shown under NLII are reclassified for cash earnings purposes, as follows:
i) Most Policyholder amounts offset within Net Life Insurance Income in the statutory results, except for Policyholder tax which is reclassified and offset within NLII.
ii) All remaining NLII amounts are then reclassified to Other operating income, IORE and Operating expenses.
b) Volume related expenses relating to entities outside of the life company are reclassified from Operating expenses and Net interest income to Other operating income, consistent with the cash earnings view.

Profit Reconciliation

Half Year ended 31 March 2014	Statutory Net Profit $m	NAB Wealth adj. [1] $m	Distri-butions $m	Treasury shares $m	Fair value and hedge ineffec. $m	DAC disc. rate $m	Amortisation of acquired intangible assets $m	Cash Earnings $m
Net interest income	6,824	19	-	-	-	-	-	**6,843**
Net life insurance income	214	(331)	-	118	-	(1)	-	**-**
Other operating income	2,166	121	-	-	327	-	15	**2,629**
IoRE	-	15	-	-	-	-	-	**15**
Net operating income	9,204	(176)	-	118	327	(1)	15	**9,487**
Operating expenses	(4,556)	60	-	-	-	-	40	**(4,456)**
Operating profit/(loss) pre-charge to provide for doubtful debts	4,648	(116)	-	118	327	(1)	55	**5,031**
Charge to provide for bad and doubtful debts	(523)	-	-	-	(5)	-	-	**(528)**
Operating profit/(loss) before tax	4,125	(116)	-	118	322	(1)	55	**4,503**
Income tax (expense)/benefit	(1,266)	113	-	(5)	(94)	-	(11)	**(1,263)**
Operating profit/(loss) before distributions and non-controlling interest	2,859	(3)	-	113	228	(1)	44	**3,240**
Net profit - non-controlling interest	(3)	3	-	-	-	-	-	**-**
Distributions	-	-	(90)	-	-	-	-	**(90)**
Net profit/(loss) attributable to owners of the Company	**2,856**	**-**	**(90)**	**113**	**228**	**(1)**	**44**	**3,150**

[1] *NAB Wealth statutory results include certain disclosures which do not exist in the cash earnings view, including Net Life Insurance Income ("NLII") and policyholder amounts. The following adjustments are made to the statutory results for cash earnings purposes:*
a) NLII is a statutory disclosure requirement only, and as such, all items shown under NLII are reclassified for cash earnings purposes, as follows:
i) Most Policyholder amounts offset within Net Life Insurance Income in the statutory results, except for Policyholder tax which is reclassified and offset within NLII.
ii) All remaining NLII amounts are then reclassified to Other operating income, IORE and Operating expenses.
b) Volume related expenses relating to entities outside of the life company are reclassified from Operating expenses and Net interest income to Other operating income, consistent with the cash earnings view.

Section 2

Highlights

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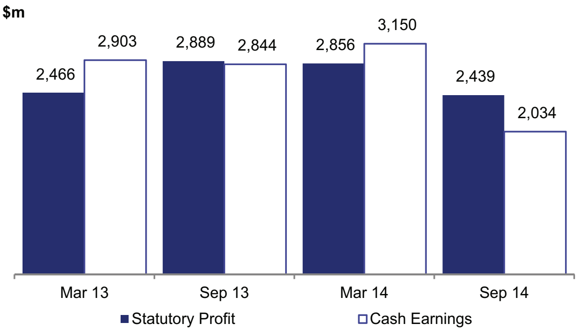
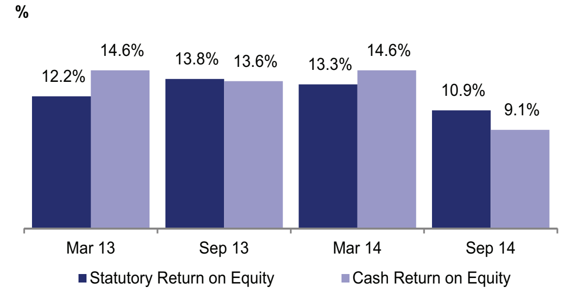
Key Performance Measures [1]

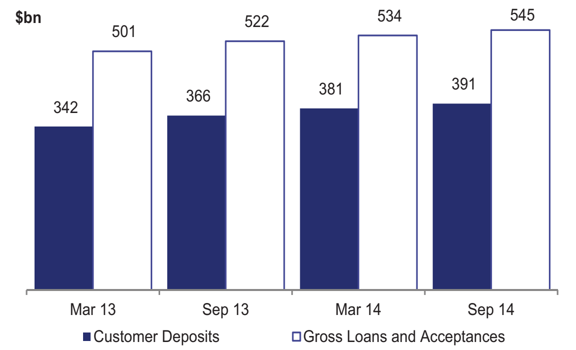
Statutory Profit and Cash Earnings - half year



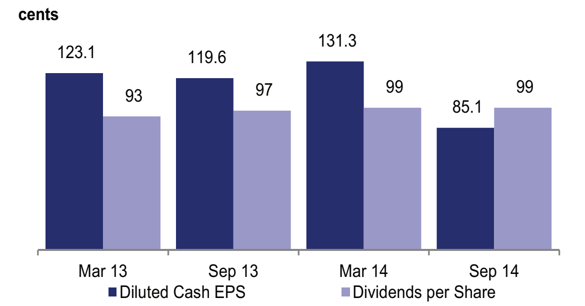
Cash Return on Equity (ROE) - half year annualised



Gross Loans and Acceptances and Customer Deposits



Diluted Cash EPS and Dividend per Share - half year



Group Performance Indicators [1]

	Year to		Half Year to	
	Sep 14	**Sep 13 [2]**	**Sep 14**	**Mar 14**
Key Indicators				
Statutory earnings per share (cents) - basic	**222.1**	225.9	**101.8**	120.4
Statutory earnings per share (cents) - diluted	**218.3**	224.0	**100.2**	118.4
Cash earnings per share (cents) - basic	**219.7**	244.9	**86.0**	133.7
Cash earnings per share (cents) - diluted	**216.0**	242.7	**85.1**	131.3
Statutory return on equity	**12.1%**	13.0%	**10.9%**	13.3%
Cash return on equity (ROE)	**11.8%**	14.1%	**9.1%**	14.6%
Profitability, performance and efficiency measures				
Dividend per share (cents)	**198**	190	**99**	99
Dividend payout ratio	**90.1%**	77.6%	**115.1%**	74.0%
Cash earnings on average assets	**0.60%**	0.72%	**0.47%**	0.74%
Cash earnings on average risk-weighted assets	**1.41%**	1.64%	**1.10%**	1.72%
Cash earnings per average FTE ($'000)	**122**	134	**94**	150
Banking cost to income (CTI) ratio	**53.0%**	43.7%	**60.6%**	45.4%
Net interest margin	**1.94%**	2.03%	**1.93%**	1.94%
Capital				
Common Equity Tier 1 ratio	**8.63%**	8.43%	**8.63%**	8.64%
Tier 1 ratio	**10.81%**	10.35%	**10.81%**	10.83%
Total capital ratio	**12.16%**	11.80%	**12.16%**	12.17%
Risk-weighted assets [3] ($bn)	**367.7**	362.1	**367.7**	367.2
Volumes ($bn)				
Gross loans and acceptances [3] [4]	**545.4**	522.1	**545.4**	534.2
Average interest earning assets	**711.6**	661.6	**716.0**	707.2
Total average assets	**862.0**	802.5	**869.9**	854.0
Total customer deposits [3]	**391.1**	366.0	**391.1**	381.1
Asset quality				
90+ days past due and gross impaired assets to gross loans and acceptances	**1.19%**	1.69%	**1.19%**	1.52%
Collective provision to credit risk-weighted assets	**0.83%**	0.94%	**0.83%**	0.91%
Collective provision including GRCL (top-up) to credit risk-weighted assets	**1.08%**	1.16%	**1.08%**	1.15%
Specific provision to gross impaired assets	**35.3%**	32.0%	**35.3%**	34.8%
Other				
Funds under management and administration [5] ($bn)	**158.1**	145.1	**158.1**	153.8
Annual inforce premiums ($m)	**1,690.6**	1,611.4	**1,690.6**	1,672.6
Full Time Equivalent Employees (FTE) (spot)	**42,853**	42,164	**42,853**	42,719
Full Time Equivalent Employees (FTE) (average)	**42,602**	42,783	**42,987**	42,234

(1) *All key performance measures and Group performance indicators are calculated on a cash earnings basis unless otherwise stated, where appropriate all half year key performance measures are annualised, with the exception of Earnings Per Share measures. A Glossary of Terms is included in Section 7.*

(2) *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes, and for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

(3) *Spot balance at reporting date.*

(4) *Including loans and advances at fair value.*

(5) *Excludes Trustee and Cash Management within NAB Wealth.*

Divisional Performance

Changes to the presentation of Divisional Financial Information

Following the Group's organisational realignment of the Australian business announced in March 2013, the presentation of divisional financial information has been amended. This includes the following changes:

- Financial information previously presented for Personal Banking, Business Banking and Wholesale Banking is now presented on a combined basis as Australian Banking
- Financial information for NAB Wealth no longer includes the NAB Private Wealth Business which is now reported in Australian Banking
- Financial information presented for Corporate Functions and Other reflects changed attributions between Corporate Functions, Australian Banking and NAB Wealth.

Following the initial public offering of a minority shareholding in Great Western Bank (GWB) in the United States (US), GWB's operations have been included in Corporate Functions and Other. GWB's results will be separately reported to the market in line with their reporting obligations in the US.

Divisional Cash Earnings

	Year to			Half Year to		
	Sep 14 $m	**Sep 13 [(1)] $m**	**Sep 14 v Sep 13 %**	**Sep 14 $m**	**Mar 14 $m**	**Sep 14 v Mar 14 %**
Australian Banking	**4,947**	4,942	0.1	**2,473**	2,474	-
NAB Wealth	**365**	322	13.4	**191**	174	9.8
NZ Banking	**738**	649	13.7	**373**	365	2.2
UK Banking	**284**	124	large	**153**	131	16.8
NAB UK Commercial Real Estate	**42**	(375)	large	**54**	(12)	large
Corporate Functions and Other [(2)]	**(1,012)**	273	large	**(1,120)**	108	large
Distributions	**(180)**	(188)	4.3	**(90)**	(90)	-
Cash earnings	**5,184**	5,747	(9.8)	**2,034**	3,150	(35.4)
Non-cash earnings items	**111**	(392)	large	**405**	(294)	large
Net profit attributable to owners of the Company	**5,295**	5,355	(1.1)	**2,439**	2,856	(14.6)

Divisional Performance Indicators

	Year to			Half Year to		
	Sep 14	**Sep 13 [(1)]**	**Sep 14 v Sep 13**	**Sep 14**	**Mar 14**	**Sep 14 v Mar 14**
Australian Banking (AU$)						
Cash earnings ($m)	**4,947**	4,942	0.1%	**2,473**	2,474	-
Cash earnings on average assets	**0.72%**	0.77%	(5 bps)	**0.72%**	0.74%	(2 bps)
Cash earnings on average risk-weighted assets	**1.98%**	2.03%	(5 bps)	**1.96%**	2.00%	(4 bps)
Net interest margin	**1.61%**	1.68%	(7 bps)	**1.61%**	1.63%	(2 bps)
Net operating income ($m)	**12,917**	13,097	(1.4%)	**6,444**	6,473	(0.4%)
Cost to income ratio	**40.8%**	38.8%	(200 bps)	**40.8%**	40.7%	(10 bps)
NAB Wealth (AU$)						
Cash earnings ($m)	**365**	322	13.4%	**191**	174	9.8%
Investment operating expenses to average FUM (bps)	**46**	52	6 bps	**44**	49	5 bps
Insurance cost to average inforce premium (%)	**14**	16	200 bps	**14**	15	100 bps
Cost to income ratio	**66.0%**	69.3%	330 bps	**64.0%**	67.9%	390 bps
NZ Banking (NZ$)						
Cash earnings (NZ$m)	**807**	788	2.4%	**407**	400	1.8%
Cash earnings on average assets	**1.24%**	1.27%	(3 bps)	**1.23%**	1.26%	(3 bps)
Cash earnings on average risk-weighted assets	**1.77%**	1.86%	(9 bps)	**1.76%**	1.77%	(1 bps)
Net interest margin	**2.34%**	2.36%	(2 bps)	**2.34%**	2.34%	-
Net operating income (NZ$m)	**2,003**	1,965	1.9%	**1,009**	994	1.5%
Cost to income ratio	**40.2%**	40.3%	10 bps	**40.2%**	40.2%	-
UK Banking (£)						
Cash earnings (£m)	**158**	80	97.5%	**85**	73	16.4%
Cash earnings on average assets	**0.43%**	0.21%	22 bps	**0.45%**	0.40%	5 bps
Cash earnings on average risk-weighted assets	**0.66%**	0.31%	35 bps	**0.71%**	0.60%	11 bps
Net interest margin	**2.22%**	2.12%	10 bps	**2.18%**	2.25%	(7 bps)
Net operating income (£m)	**969**	986	(1.7%)	**484**	485	(0.2%)
Cost to income ratio	**70.8%**	73.1%	230 bps	**71.3%**	70.3%	(100 bps)

(1) *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes, and for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

(2) *Corporate Functions and Other includes the impacts of provisions taken for UK related payment protection insurance and interest rate hedging products.*

Group Performance

Andrew Thorburn

Restatement of prior period financial information and changes in the presentation of divisional financial information

Following the adoption of new accounting standards, as detailed in the Principal Accounting Policies on page 76, the Group's Income Statement and Balance Sheet have been restated for the year ended 30 September 2013. The restated Income Statement and Balance Sheet are presented on pages 70 and 72 respectively. Cash earnings for the year ended 30 September 2013 have also been restated to include Payment Protection Insurance provision charges to make the 2014 results more comparable.

Following the Group's organisational realignment of the Australian business announced in 2013, the presentation of the Group's divisional financial information has been amended. Information about these changes is outlined on page 11.

Net Profit Attributable to Owners of the Company

Net profit attributable to owners of the Company (statutory net profit) for the September 2014 full year decreased by $60 million or 1.1% against the September 2013 full year, and $417 million or 14.6% against the March 2014 half year. The September 2014 result was materially impacted by $1,504 million taken in provisions relating to legacy UK conduct related matters and write-downs to the carrying value of software assets and several other tax related items. Details of these specified items and those which impacted the September 2013 year are set out on page 20, Review of Group Operations and Results. Net profit attributable to owners of the Company is prepared in accordance with the *Corporations Act* 2001 (Cth), and Australian Accounting Standards.

Shareholder Returns

The Group's statutory return on equity decreased by 90 basis points to 12.1% compared to the September 2013 year. The Group's cash return on equity is 230 basis points down from the September 2013 year at 11.8%, and is down 550 basis points compared to the March 2014 half year at 9.1%. This is primarily due to provisions taken relating to legacy UK conduct related matters and write-downs to the carrying value of software assets and several other tax related items.

The final dividend for September 2014 is 99 cents per share, consistent with the interim dividend for the March 2014 half year. This represents a 2.1% increase on the September 2013 final dividend. This represents a dividend payout ratio of 90.1% for the September 2014 full year on a cash earnings basis.

The dividend payment is 100% franked and will be paid on 16 December 2014. Shares will be quoted ex-dividend on 7 November 2014.

Earnings Per Share

Basic statutory earnings per share decreased by 3.8 cents or 1.7% on the September 2013 year. Diluted earnings per share decreased by 5.7 cents or 2.5%. This reflects the Group's decrease in statutory profit.

Basic statutory earnings per share decreased by 18.6 cents or 15.4% on the March 2014 half year. Diluted earnings per share decreased by 18.2 cents or 15.4%.

Basic cash earnings per share decreased by 25.2 cents or 10.3% on the September 2013 year. Diluted cash earnings per share decreased by 26.7 cents or 11.0%. This reflects the Group's decrease in cash earnings, as well as an increase in the number of shares on issue.

Basic cash earnings per share decreased by 47.7 cents or 35.7% on the March 2014 half year. Diluted cash earnings per share decreased by 46.2 cents or 35.2%.

Strategic Highlights

2014 was a challenging year for the Group. The additional provisioning for UK conduct related matters, combined with capitalised software and Deferred Tax Asset provisions was disappointing. However, these issues are being dealt with transparently and appropriately, and the underlying performance of the Group remains strong.

The Group continued to better align the business to the changing economic landscape and customers' evolving needs. It continues to focus on enhancing the core Australian and New Zealand franchise.

At the same time the Group continues to manage its international portfolio for value.

In Australia, the Group has now fully implemented an integrated and simplified operating model that aligns the organisation to the external environment and evolving customer needs. The model features:

- More streamlined customer management divisions focused on managing and growing customer relationships
- A single product house to effectively coordinate and manage all product offerings and drive innovation
- A centralised operations, shared services and transformation division to drive greater scale and efficiency, and delivery of business-wide transformation
- Centralised support divisions, bringing together Risk, Finance & Strategy, People, Communications and Governance, to remove duplication and promote greater consistency.

Highlights of the Group's progress towards meeting its 2014 strategic priorities are outlined below.

Focus on the core Australian and New Zealand franchise

The Group focused on enhancing the Australian and New Zealand franchise by strengthening its relationship with customers in a number of ways during the year. For example, NAB Connect was upgraded with enhanced functionality to provide better direct relationships with customers. In Business Banking, centralised metro and regional fulfilment centres have been created to support improved customer relationships. While BNZ continues to focus on its mission of 'Being the Bank for New Zealand' by helping New Zealanders be good with money.

The Group introduced 98 wealth advisors across the Australian Banking network, providing professional advice and meeting the needs of banking customers.

The Group also continues to focus on improving cost and efficiency – optimising the core business and providing customers with a better experience. Examples of simplifying and digitalising the business include:

- Rebranding broker originated mortgages from Homeside to NAB to leverage the strength of the Group's main brand and reduce complexity
- Upgrading the Australian Banking payments infrastructure to enable Intraday Settlement
- Consolidating a number of product information databases into one, enabling staff to serve customers more quickly; and in turn drastically reducing both the number of branch support calls to customer contact centres and the average length of calls
- Rolling out of another two NAB 'Smart Stores'- interactive and intelligent branch formats in which customers can either use the self-service channels on site, or be supported with help, guidance and advice from a NAB staff member.

On the digital front, the Group continues to drive resilience and capacity upgrades across its digital channels to support the rapid uptake of digital services by NAB customers. Mobile internet banking logins have increased by more than one third since 2013.

Manage International Portfolio

In common with the wider UK retail banking sector, Clydesdale Bank continues to deal with historical redress issues in relation to Payment Protection Insurance and Interest Rate Hedging products, which negatively affected the results of the Group during the year (see specified items on page 20). Excluding these impacts, the returns in UK Banking improved in line with the economic growth in that region. The NAB UK CRE portfolio is being wound down in an orderly manner, with a $3.2 billion reduction in 2014 that was a function of run-off and the sale of part of the portfolio.

Similarly, the run-down of the Specialised Group Assets (SGA) portfolio continued in 2014, with total assets contracting from $17.4 billion as at September 2009 to $3.3 billion as at September 2014.

On 15 October 2014, the Group sold a minority stake (31.8%) in its US-based business Great Western Bank (GWB) through an initial public offering of shares in the US. The Group plans to sell 100% of the GWB business over time, subject to market conditions.

Invest in people, culture and reputation

Key initiatives and highlights in 2014 included:

- To date, NAB has assisted more than 335,000 people with microfinance products through its partnership with Good Shepherd Microfinance, and has set an ambitious goal to reach one million people by 2018
- NAB continues to make progress towards its Group gender diversity targets, with women now representing 32% of Group subsidiary board members
- NAB has committed to contributing one million employee volunteer hours by 2018. Since 2002, over 922,000 volunteer hours have been contributed by NAB employees to the community.

Maintain focus on risk and compliance

In 2014 the Group continued to embed risk awareness, accountability, management and compliance into all of its daily business activities. Key highlights in 2014 included:

- Launching Risk Ready, a refreshed mandatory risk management training program for new employees
- Commencing the development of a customised 'RiskSmart' system to assist with management of operational risk and compliance. The new system is expected to be deployed across the Group in 2015.

Build balance sheet strength

The Group maintains a strong capital, funding and liquidity position, in line with its ongoing commitment to build balance sheet strength.

The Group's Common Equity Tier 1 (CET1) capital ratio was 8.63% at 30 September 2014.

During the year, the Group has accessed a diverse range of wholesale funding across senior and secured debt markets as well as the domestic retail hybrid market.

The Group is well placed to meet Basel III funding and liquidity reforms to be implemented on 1 January 2015.

The Group remains vigilant in its evaluation of the economic and regulatory environment, and continues to ensure the balance sheet remains strong to enable it to respond to changing market and regulatory conditions.

Section 3

Review of Operating Environment, Group Operations and Results

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Review of Group Operating Environment

Global Business Environment

The performance of the global economy has been disappointing with 2014 likely to be another year of output expansion that is below trend and large variations between economies and regions. The pace of global economic growth picked up from 2.5% in early 2013 to 3.5% by the end of the calendar year, as a long-awaited upturn spread through the major advanced economies and there were hopes that global expansion could be consolidated at between 3.5% and 4%.

Weather-related setbacks to the US economy in early 2014 and June quarter weakness in Japan and the Euro-zone resulted in a loss of momentum in the major advanced economies, cutting their growth from 2.25% in late 2013 to 1.75% in mid-2014. This advanced economy slowdown was a major factor taking global growth back under 3% by mid-2014. Western Europe and Japan have been the main areas of weakness among the advanced economies, with mid-2014 output in the Euro-zone and Japan remaining below its early 2008 level, while UK GDP has risen only marginally above its pre-recession peak. The recovery from recession has been strongest in North America as output in the US and Canada has risen to well above its early 2008 level.

While advanced economies still account for around half of global output, the emerging market economies have been the main drivers of global growth in recent years, contributing over two-thirds of the increase in global output. The pace of emerging market economy growth has also slowed, from 6% in mid-2013 to 5.25% in mid-2014, reflecting the downward trend in Chinese output expansion along with weak results from other East Asian economies, India and Latin America.

Global growth looks likely to remain around 3% this year, before rising to a near trend 3.5% in the following two years. The below-trend growth experienced between 2012 and 2014 has had important consequences for key elements of the business environment in Group markets. By limiting the rate at which commodity demand expands, the below trend growth has resulted in lower global commodity prices. By contributing to the maintenance of higher unemployment and more idle capacity, it has eroded the pricing power of both firms and employees. This has ensured that inflation remains low and kept global interest rates low by historical standards.

Australian Economy

Although Australian economic growth is running at around trend, there are disparate conditions between regions and industries. The commodity boom that underpinned a large share of output expansion in recent years is moving from its labour-intensive investment phase to a period where export volumes come on stream from this increased mineral and energy producing capacity.

As a result, increased volumes of resource exports account for a large proportion of the 3% to 3.25% growth in GDP expected between 2014 and 2016. One consequence of the growth concentration on mining is that the rest of the economy is growing well below its long-term rate. Domestic demand is predicted to rise by 1.5% this year, slowing further to 1.25% in 2015 and 1% in 2016. Consequently large parts of the Australian economy will continue to face a low growth environment.

As mining investment scales back, resulting in large scale job losses and the prospect of a severe slowdown in aggregate business capital spending, the authorities' strategy is to stimulate investment elsewhere by keeping interest rates low by historical standards. So far, the investment response by non-mining business has been lacklustre. Investment spending volumes have risen slightly but a combination of the outlook for sluggish demand growth, along with idle capacity and an absence of profit growth in recent years, has made non-mining businesses take a cautious approach to investing and hiring.

Surveys show the prevailing mood in the household sector is also one of caution, with concern over job security, living costs and prospective retirement incomes weighing on sentiment. This has led to higher savings rates than seen before the global financial crisis, much slower growth in household credit and a focus on consumer essentials at the expense of discretionary items in household spending. The gloom should not be overdone, however, as higher house and equity prices have allowed the household sector to rebuild its balance sheet strength, low interest rates assist in debt servicing and although the jobless rate is rising, it is only rising gradually and should peak at around 6.5%, below the 7.3% advanced economy average.

The central bank's low policy interest rates do appear to be delivering their intended stimulus to crucial interest-sensitive parts of the economy. Although the main policy aim is to boost dwelling construction rather than house prices, the latter have risen by over 15% since mid-2012, boosting wealth. Dwelling approvals have also picked up considerably over the same period and the volume of construction activity started rising in early 2014. Retail sales of discretionary durable goods linked to housing also strengthened markedly in early 2014, but the pace of growth has softened since the middle of the year.

Australian commodity export prices have fallen by over one-third in world currency terms from their mid-2011 peak, which is expected to put downward pressure on the Australian dollar. Low interest rates are boosting demand and Australian dollar depreciation will increasingly provide a stimulus to traded goods industries such as tourism, which should help offset some of the income losses stemming from weaker commodity prices.

International competitiveness in recent years has been poor by historical standards, putting pressure on sectors like manufacturing and resulting in a series of factory closures. The depreciation of the A$ has delivered an improvement of around 10% in Australian industry competitiveness since early 2013, but competitiveness is still around 20% worse than its 45 year trend level. The US$ has been appreciating, reflecting the solid growth outlook of the US economy and an anticipated rise in its interest rates. Currency experts are expecting this trend to continue and to drive market sentiment away from currently higher yielding currencies like the Australian and New Zealand dollars.

New Zealand Economy

Economic growth in New Zealand is expected to reach a solid 3.8% this year, well above estimates of its long-run potential. This signifies that the margin of spare capacity in the economy is eroding rapidly. Although a combination of sharply falling export prices in the key dairy industry and the impact of policy tightening on the housing market is now clearly slowing the pace of expansion, recent business and consumer surveys readings are still consistent with an above-trend pace of expansion and growth which should still reach 3.4% next year.

Although unemployment and spare capacity are falling, there is remarkably little inflation of either wages or prices, allowing the New Zealand central bank to take a gradual and measured approach in lifting its policy interest rate back to a more normal “neutral” level. The previously high local currency served to lower inflation along with the continuing positive impact of high investment and population growth on the economy’s supply capacity. However, following New Zealand central bank announcements that it was over-valued, the New Zealand dollar has weakened against a background of falling commodity prices.

The slide in dairy prices looks likely to take back a large part of the $5 billion extra income that exceptionally high dairy prices previously injected into the economy. However prices for other important export commodities are faring better and the forecast rise in meat farm incomes should offset some of the predicted decline in dairy farm returns. Even though commodity prices are trending down, by historical standards New Zealand’s terms of trade should remain high through the next few years.

After a long period of stagnation in the wake of the 2008 global financial crisis, domestic demand has been growing quite strongly through the last few years and national spending should grow by over 4% this calendar year, reflecting broad-based momentum across large parts of the economy. Retail spending has been growing at an annualised rate of almost 4% through the first half of 2014, household demand for unsecured credit has been rising and business investment has been growing rapidly. A combination of rebuilding of earthquake damaged buildings in Christchurch and an immigration-related upturn in the housing market in Auckland has underpinned strong housing investment.

Higher policy interest rates and restrictions on high loan to value mortgage lending are, however, already having an effect on the housing market. The rate of house price inflation has slowed, the volume of sales has dropped considerably, properties are no longer selling as quickly, the trend value and volume of housing loan approvals is declining and the growth in household credit has slowed.

After a long period of de-leveraging between 2008 and 2011, New Zealand businesses started borrowing again as the economy picked up. This growth in business credit has, however, remained modest in comparison with pre-2008 experience. Even though business has been investing, capacity pressures are re-appearing and the business surveys show favourable readings on profits, business credit growth has struggled to get above 4% in the last few years. Thus, even in the Group’s strongest market, the appetite for new borrowing in the business sector is far from strong and is not expected to improve much next year.

United Kingdom Economy

In the first half of 2013, the UK economy commenced a sustained and long awaited recovery from the severe 2008/9 recession and this upturn has gathered momentum through the subsequent period of almost two years, with the annualised pace of growth reaching 3.2% in the first three-quarters of 2014. In the September quarter of 2014, output was less than 3.5% above its early 2008 level, marking a six year period of minimal economic growth and the worst UK output performance for at least 90 years. The UK economic upturn looks set to continue with growth of around 3% in calendar 2014 and 2.5% in 2015.

The nature of this economic upturn has not followed the pattern initially expected by the government. The Euro-zone crisis has led to prolonged weakness in the UK’s major export markets and a sluggish UK export performance. This impeded the anticipated rebalancing of UK growth from its previous reliance on consumer spending and housing toward a greater role for exports and business investment. While exports have remained soft, business investment was growing by around 11% in mid-2014, as the mood of risk aversion, caution and retrenchment that had been prevalent in business since 2008 began to improve. Business borrowing has, however, remained modest, with continued declines in the stock of lending to SMEs and only the first signs of resumption in corporate borrowing appearing in mid-2014.

Consumer spending and house price inflation, which had been expected to take a back seat in the UK’s recovery from recession, have played a central role in driving growth. Consumer spending has been increasing, despite the fact that nominal wage growth has been modest, real wages have trended down and household incomes have fallen. Rising employment, a recovery in household wealth stemming from higher house and equity prices, and a lower household saving ratio have underpinned the rise in household spending. The volume of retail spending has risen by around 4% through the first half of 2014. Commercial property and house prices are both rising but the upturn in the housing market is not as strong as it was earlier in the year.

There are generally differences between UK regions in terms of their growth through the economic cycle, this recovery appears to be firmly established across the Group’s key markets in Northern England and Scotland. Employment levels are growing and house prices rising in Yorkshire, and local business surveys show firms are optimistic about recent trends. In Scotland, first half 2014 GDP figures showed 1% quarterly growth, exceeding the UK average, while employment has also been growing and recent housing market surveys show Scotland has some of the best readings of house price growth and sales expectations. Other indicators of the Scottish economy show rising local demand, with 3% annual growth in retail sales volumes in mid-2014 and first quarter 2014 annual growth of 2.4% in manufactured export volumes.

With the economic upturn looking securely established and interest rates still at historically low levels, the Bank of England is considering when to start lifting its policy interest rates to more normal levels, how aggressive a tightening profile to set for monetary policy and where rates might end up, once the process of interest rate normalisation is completed. The UK central bank’s current thinking is that low wage and price inflation mean there is no need to lift rates urgently or aggressively. Consequently, UK rates should rise gradually to a level that falls short of what was considered neutral prior to the onset of the financial crisis and recession.

Review of Group Operations and Results

Craig Drummond

Group Results

	Year to			Half Year to		
	Sep 14 $m	**Sep 13 (1) $m**	**Sep 14 v Sep 13 %**	**Sep 14 $m**	**Mar 14 $m**	**Sep 14 v Mar 14%**
Net interest income	**13,775**	13,407	2.7	**6,932**	6,843	1.3
Other operating income	**5,104**	5,125	(0.4)	**2,475**	2,629	(5.9)
IoRE	**34**	31	9.7	**19**	15	26.7
Net operating income	**18,913**	18,563	1.9	**9,426**	9,487	(0.6)
Operating expenses	**(10,180)**	(8,410)	(21.0)	**(5,724)**	(4,456)	(28.5)
Underlying profit	**8,733**	10,153	(14.0)	**3,702**	5,031	(26.4)
Charge to provide for bad and doubtful debts	**(877)**	(1,934)	54.7	**(349)**	(528)	33.9
Cash earnings before tax, IoRE, distributions and non-controlling interest	**7,856**	8,219	(4.4)	**3,353**	4,503	(25.5)
Income tax expense	**(2,492)**	(2,284)	(9.1)	**(1,229)**	(1,263)	2.7
Cash earnings before IoRE, distributions and non-controlling interest	**5,364**	5,935	(9.6)	**2,124**	3,240	(34.4)
Distributions	**(180)**	(188)	4.3	**(90)**	(90)	-
Cash earnings (2)	**5,184**	5,747	(9.8)	**2,034**	3,150	(35.4)
Non-cash earnings items	**111**	(392)	large	**405**	(294)	large
Net profit attributable to owners of the Company	**5,295**	5,355	(1.1)	**2,439**	2,856	(14.6)

(1) *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes and for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

(2) *Cash earnings is a key financial performance measure used by the Group, the investment community and Australian peers. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards. For a full reconciliation between the Group's cash earnings and net profit attributable to owners of the Company refer to pages 5 - 8 in Section 1.*

Cash Earnings (1)

(1) *At constant exchange rates.*

(2) *Includes distributions and eliminations. The results of Corporate Functions and Other includes the impacts of provisions taken for UK related payment protection insurance and interest rate hedging products.*

Review of Group Operations and Results

Financial Analysis

September 2014 v September 2013

Net profit attributable to owners of the Company decreased by $60 million or 1.1% compared to the September 2013 year. This result was materially impacted by $1,504 million taken in additional provisions relating to legacy UK conduct related matters and write-downs to the carrying value of software assets and several other tax related items. Details of these specified items, and comparatives that impacted the September 2013 year, can be found on the following page. Excluding foreign exchange rate movements and specified items, net profit attributable to owners of the Company increased by $1,481 million or 28.8% reflecting lower charges for bad and doubtful debts, a favourable impact from the elimination of Treasury shares, and favourable movements in fair value and hedge ineffectiveness. These were partially offset by lower revenue and higher expenses. Net profit attributable to owners of the Company (statutory net profit) is prepared in accordance with the *Corporations Act* 2001 (Cth), and Australian Accounting Standards.

Cash earnings decreased by $563 million or 9.8% compared to the September 2013 year. Excluding foreign exchange rate movements and specified items (detailed on the next page), cash earnings increased by $564 million or 9.5%. This was driven by lower charges for bad and doubtful debts partially offset by lower revenue largely due to lower earnings on capital and non-interest bearing deposits, the run-off of the UK CRE and SGA portfolios, combined with higher expenses to support transformational and regulatory projects and continued investment in the business.

Cash earnings on risk-weighted assets decreased by 23 basis points reflecting lower earnings, combined with higher risk-weighted assets as a result of the transition to Basel III.

Net interest income increased by $368 million or 2.7%. Excluding foreign exchange rate movements, net interest income decreased by $43 million or 0.3%. The decrease was largely driven by a lower earnings rate on capital and non-interest bearing deposits combined with the run-off of the UK CRE and SGA portfolios and lower lending margins. These decreases were partially offset by volume growth in housing lending and higher income associated with interest rate risk management activities within the liquidity, funding and banking book of $144 million (offset in other operating income).

Other operating income decreased by $21 million or 0.4%. Excluding foreign exchange rate movements other operating income decreased by $173 million or 3.4%. Excluding the offset of $144 million in net interest income, the underlying decrease was largely attributable to a reduction in the sales of risk management products to the Group's customers and lower trading performance, following a strong performance in 2013 combined with lower fee income. These decreases were partially offset by higher Investments net income in NAB Wealth driven by strong growth in FUM as a result of strong investment markets and increased client flows.

Operating expenses increased by $1,770 million or 21.0%. Excluding foreign exchange rate movements and specified items (detailed on the next page), operating expenses increased by $55 million or 0.7%. The underlying increase was mainly due to increased costs to support transformational and regulatory projects and continued investment in the business. This increase was partially offset by restructuring costs in the September 2013 half year, which did not repeat.

The **charge to provide for bad and doubtful debts** decreased by $1,057 million or 54.7% ($1,087 million or 56.2% excluding foreign exchange rate movements). This primarily reflects lower charges in Australian Banking, UK Banking and NAB UK CRE businesses reflecting improvements in asset quality.

September 2014 v March 2014

Net profit attributable to owners of the Company decreased by $417 million or 14.6%, compared to the March 2014 half year. Excluding foreign exchange rate movements and specified items (detailed on the next page), net profit increased by $1,087 million or 40.3% reflecting favourable movements in fair value and hedge ineffectiveness, coupled with lower charges for bad and doubtful debts.

Cash earnings decreased by $1,116 million or 35.4% compared to the March 2014 half year. Excluding foreign exchange rate movements and specified items (detailed on the next page), cash earnings increased by $66 million or 2.0%. This was largely driven by lower charges for bad and doubtful debts, particularly in UK Banking and UK CRE, partially offset by lower revenue due to lower trading income.

Cash earnings on risk-weighted assets decreased by 62 basis points reflecting lower cash earnings and higher risk-weighted assets.

Net interest income increased by $89 million or 1.3%. Excluding foreign exchange rate movements, net interest income increased by $86 million or 1.3%. This increase was mainly attributable to continued growth in housing lending and higher income from the Group's liquidity portfolio of $56 million (offset in other operating income). These were partially offset by lower lending margins.

Other operating income decreased by $154 million or 5.9%. Excluding the offset in net interest income, the underlying decrease of $98 million was due to a reduction in trading income, reflecting subdued market conditions.

Operating expenses increased by $1,268 million or 28.5%. Excluding foreign exchange rate movements and specified items (detailed on the next page), operating expenses increased by $6 million or 0.2%.

The **charge to provide for bad and doubtful debts** decreased by $179 million or 33.9% ($178 million or 33.7% excluding foreign exchange rate movements). This primarily reflects lower charges in UK Banking and UK CRE combined with the partial release of the Group economic cycle adjustment, reflecting improvements in asset quality.

Impact of Foreign Exchange Rate Movements

Excluding foreign exchange rate movements, cash earnings decreased by $572 million or 10.0% on the September 2013 full year and decreased by $1,118 million or 35.5% on the March 2014 half year. Foreign exchange movements have a minor favourable effect on both the September 2014 full year result ($9 million) and the September 2014 half year result ($2 million).

Pages 116 and 117 contain the September 2014 full year and September 2014 half year divisional performance summaries excluding foreign exchange rate movements.

Specified Items in September 2014 & September 2013

	Year to		Half year to	
	Sep 14 $m	**Sep 13 $m**	**Sep 14 $m**	**Mar 14 $m**
UK Conduct - IRHP	**(654)**	(56)	**(449)**	(205)
UK Conduct - PPI	**(756)**	(204)	**(756)**	-
Capitalised Software	**(297)**	-	**(297)**	-
R&D tax impact on opex	**40**	-	**40**	-
Operating expenses impact	**(1,667)**	(260)	**(1,462)**	(205)
Tax on Specified Items	**363**	54	**318**	45
NY DTA	**(132)**	-	**(132)**	-
R&D Tax credits	**(68)**	-	**(68)**	-
Income tax expense impact	**163**	54	**118**	45
Cash earnings impact	**(1,504)**	(206)	**(1,344)**	(160)

During the year ended 30 September 2014, several specified items had an impact on NAB's cash earnings, all of which have been reported in the Corporate Functions and Other division:

- UK Conduct charges IRHP – Additional provisions of $654 million (£365 million) in relation to customer redress for interest rate hedging products (IRHP) sold in the UK
- UK Conduct charges PPI – Additional provisions of $756 million (£420 million) in relation to customer redress for Payment Protection Insurance (PPI) sold in the UK
- Capitalised Software – Following an annual impairment assessment of capitalised software, an impairment charge of $297 million was taken against individually significant assets, predominantly in NAB Wealth and Australian Banking businesses and other smaller assets in the UK and NZ region. Included within the impairment charge is $106 million for certain assets relating to NextGen, other than the core banking platform assets where no impairment was required
- R&D Tax – As a result of a change in accounting policy for tax offsets, the Group is now recognising research and development (R&D) tax offsets as a reduction to the related software expense or carrying value of software assets. The impact of the changes is a $68 million increase in tax expense, a $40 million decrease in operating expenses, a $40 million reduction in the software assets and a $12 million decrease to the Deferred Tax Liability
- NY DTA – Following an assessment of regulatory changes and business model changes in the USA and their impact on projections of future taxable income, and in turn the recoverability of the deferred tax assets (DTA) held in the New York (NY) branch, a DTA provision of $132 million (US$120 million) has been taken. The tax losses related to the DTA still remain available to the Group for up to 20 years.

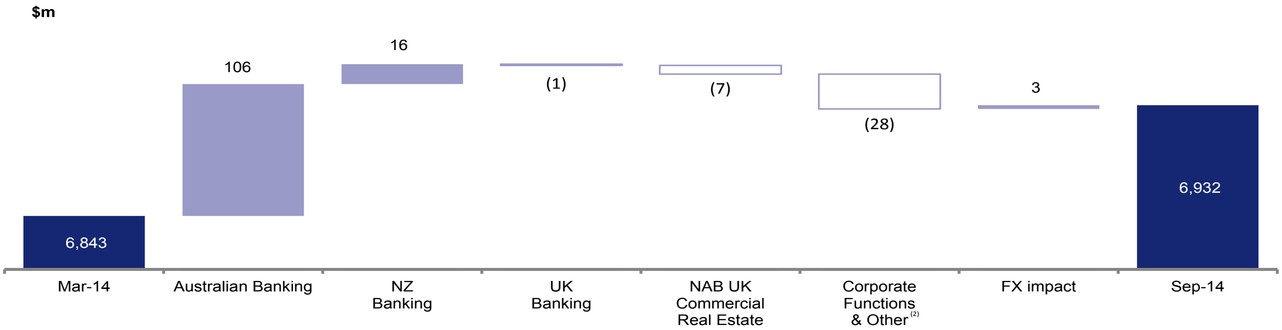
Net Interest Income

	Year to			Half Year to		
	Sep 14	Sep 13	Sep 14 v Sep 13 %	Sep 14	Mar 14	Sep 14 v Mar 14 %
Net interest income ($m)	**13,775**	13,407	2.7%	**6,932**	6,843	1.3%
Average interest earning assets ($bn) (1)	**711.6**	661.6	7.6%	**716.0**	707.2	1.2%
Net interest margin (%)	**1.94**	2.03	(9 bps)	**1.93**	1.94	(1 bps)

(1) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

Net interest income and margin management are key areas of focus for the divisions. Group net interest margins represent an amalgam of the individual business outcomes and the analysis below is based on divisional drivers.

Net Interest Income - Contribution to Net Increase (1)



(1) *At constant exchange rates.*
(2) *Corporate Functions and Other includes Group Funding, Other Corporate Functions activities and the results of Specialised Group Assets (SGA) and Great Western Bank (GWB).*

September 2014 v September 2013

Net interest income increased by $368 million or 2.7%. Excluding foreign exchange rate movements, net interest income decreased by $43 million or 0.3% mainly due to the following movements:

- $128 million increase in Australian Banking, with $144 million of the increase relating to higher income associated with activities supporting Group liquidity, funding and banking book interest rate risk management. Excluding this, net interest income decreased reflecting lower lending margins due to competitive lending market pressures and a lower earnings rate on non-interest bearing deposits and capital. These decreases were largely offset by housing lending growth combined with lower funding and deposit costs
- $37 million increase in NZ Banking driven by business lending and housing lending growth, partially offset by margin compression due to customers switching from variable rate to lower margin fixed rate lending
- $13 million increase in UK Banking driven by higher housing lending income and lower deposit costs, partially offset by lower business lending income as a result of portfolio attrition and also a lower earnings rate on non-interest bearing deposits and capital
- $29 million decrease in NAB UK CRE due to the continued run-off of the portfolio
- $192 million decrease in Corporate Functions and Other driven by lower earnings on capital reflecting the declining interest rate environment combined with lower income from the continued run-off of the SGA portfolio and lower net interest income from Group Funding activities.

September 2014 v March 2014

Net interest income increased by $89 million or 1.3%. Excluding foreign exchange rate movements, net interest income increased by $86 million or 1.3% mainly due to the following movements:

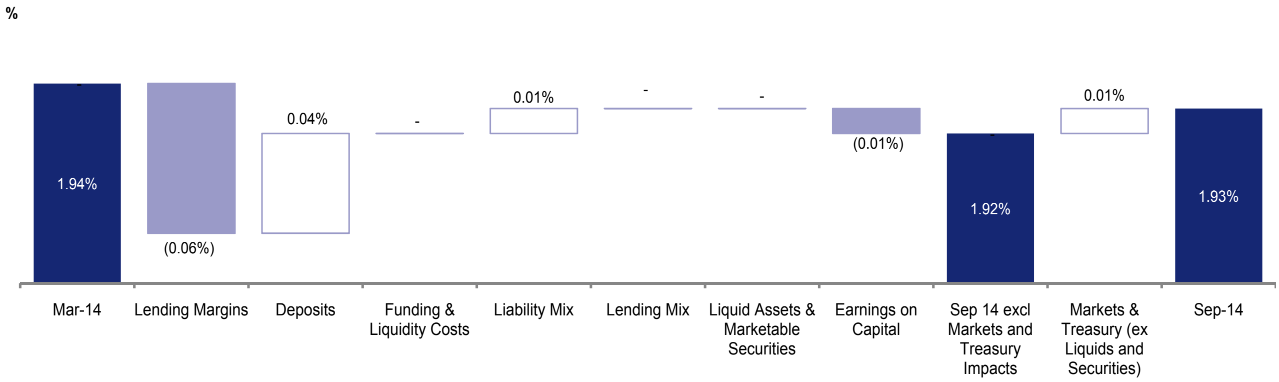
- $106 million increase in Australian Banking, with $56 million of the increase being offset by adverse movements on economic hedges relating to interest rate risk management activities within the Group's liquidity portfolio included in other operating income. Excluding this, the increase in net interest income was driven by continued growth in housing lending and lower deposit costs. These increases were partially offset by a decrease in lending margins due to competitive lending market pressures
- $16 million increase in NZ Banking driven by growth in business lending and housing lending volumes, combined with lower funding and deposit costs. These increases were partially offset by a decrease in lending margins due to customers switching from variable rate to lower margin fixed rate lending and also margin compression from competitive market pressures
- $28 million decrease in Corporate Functions and Other driven by lower earnings on capital reflecting the declining interest rate environment, combined with lower income from the continued run-off of the SGA portfolio.

Net Interest Margin

	Year to			Half Year to		
	Sep 14 %	**Sep 13 %**	**Sep 14 v Sep 13**	**Sep 14 %**	**Mar 14 %**	**Sep 14 v Mar 14**
Group net interest margin	**1.94**	2.03	(9 bps)	**1.93**	1.94	(1 bps)
Australian Banking (1)	**1.61**	1.68	(7 bps)	**1.61**	1.63	(2 bps)
NZ Banking	**2.34**	2.36	(2 bps)	**2.34**	2.34	-
UK Banking	**2.22**	2.12	10 bps	**2.18**	2.25	(7 bps)

(1) *The Australian Banking division is described on page 46.*

Net Interest Margin



September 2014 v September 2013

The Group's **net interest margin** has decreased by nine basis points compared to the September 2013 year. Key movements in the Group net interest margin were:

- A twelve basis point decrease in lending margin, due to competitive market pressures impacting business lending margins in Australian Banking, coupled with margin compression in housing lending in Australian Banking and NZ Banking
- A four basis point increase relating to deposits and a one basis point increase due to lower funding and liquidity costs, due to lower deposit and term funding costs, partially offset by a lower earnings rate on non-interest bearing deposits
- A three basis point increase from liability mix as a result of growth in customer deposits as the Group continues to focus on improving balance sheet strength
- A three basis point decrease due to a lower earnings rate on capital reflecting the low interest rate environment
- A three basis point decrease from holding higher levels of liquid assets and marketable debt securities, as part of the Group's transition to Basel III and in the normal course of business to support customer activity
- A one basis point increase in Markets and Treasury mainly from favourable outcomes in interest rate risk management activities, offset in other operating income.

September 2014 v March 2014

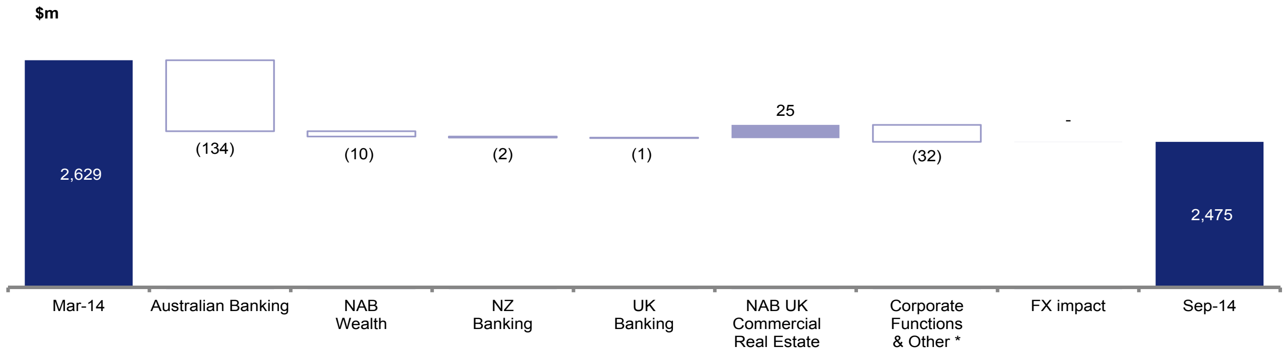
The Group's **net interest margin** has decreased by one basis point compared to the March 2014 half year. Key movements in the Group net interest margin were:

- A six basis point decrease in lending margin, due to competitive market pressures impacting business lending margins in Australian Banking, coupled with margin compression in housing lending in Australian Banking and NZ Banking
- A one basis point decrease due to a lower earnings rate on capital reflecting the sustained low interest rate environment
- A four basis point increase relating to deposits as a result of lower term deposit and at call deposit costs, partially offset by a lower earnings rate on non-interest bearing deposits
- A one basis point increase from liability mix as a result of growth in customer deposits as the Group continues to focus on improving balance sheet strength
- A one basis point increase in Markets and Treasury mainly from favourable outcomes in interest rate risk management activities, offset in other operating income.

Other Operating Income

	Year to			Half Year to		
	Sep 14 $m	**Sep 13 $m**	**Sep 14 v Sep 13 %**	**Sep 14 $m**	**Mar 14 $m**	**Sep 14 v Mar 14 %**
Fees and commissions	**2,505**	2,495	0.4	**1,258**	1,247	0.9
Trading income	**892**	1,094	(18.5)	**326**	566	(42.4)
Other	**1,707**	1,536	11.1	**891**	816	9.2
Other operating income	**5,104**	5,125	(0.4)	**2,475**	2,629	(5.9)

Other Operating Income - Contribution to Net Decrease [(1)]



[(1)] *At constant exchange rates.*
* *Includes eliminations.*

September 2014 v September 2013

Other operating income decreased by $21 million or 0.4% from September 2013. Excluding the impact of foreign exchange, other operating income decreased by $173 million or 3.4%.

Fees and commissions increased by $10 million or 0.4% (decreased by $90 million or 3.6% excluding foreign exchange). The underlying decrease was due to lower fee income on lending products, combined with a reduction in account fees to improve customer outcomes and competitive positioning, particularly in the UK.

Trading income decreased by $202 million or 18.5% ($233 million or 21.3% excluding the foreign exchange). Excluding the offset in net interest income of $144 million, the underlying decrease of $89 million was mainly due to a reduction in the sales of risk management products to the Group's customers and lower trading income following a stronger performance in 2013.

Other income increased by $171 million or 11.1%. Excluding the impact of foreign exchange, other income increased by $150 million or 9.8%. The increase was mainly due to strong growth in FUM as a result of the strong performance in investment markets and positive net fund flows, combined with a gain on the sale of loans in the UK CRE portfolio and available for sale investments in Corporate Functions and Other.

September 2014 v March 2014

Other operating income decreased by $154 million or 5.9% from March 2014. Excluding the impact of foreign exchange, other operating income decreased by $154 million or 5.9%.

Fees and commissions increased by $11 million or 0.9% ($10 million or 0.8% excluding foreign exchange). The underlying increase was due to a rise in transaction and unsecured lending fees driven by increased sales.

Trading income decreased by $240 million or 42.4% ($240 million or 42.4% excluding foreign exchange). Excluding the offset in net interest income of $56 million, the underlying decrease of $184 million was driven by a reduction in trading income as a result of lower levels of market volatility, the impact of credit valuation adjustments for derivatives, combined with a methodology change to the valuation of derviatives and lower gains relating to Group Funding activities compared to the March 2014 half.

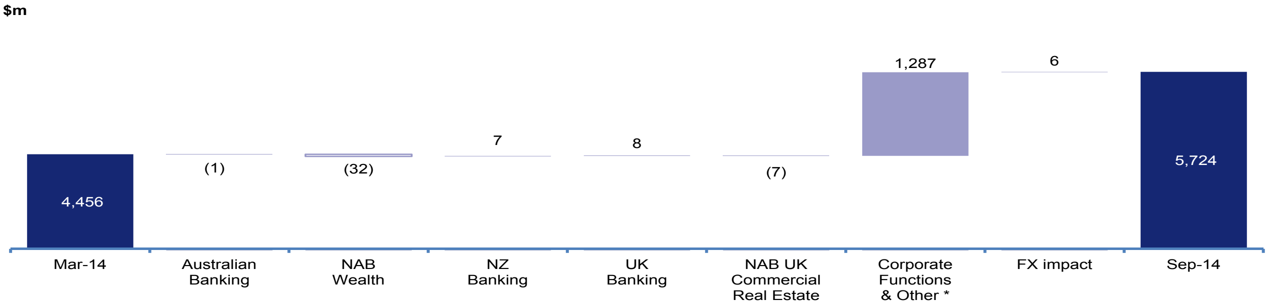
Other income increased by $75 million or 9.2%. Excluding the impact of foreign exchange, other income increased by $76 million or 9.3% mainly due to a gain on the sale of loans within the UK CRE portfolio and available for sale investments in Corporate Functions and Other.

Operating Expenses

	Year to			Half Year to		
	Sep 14 $m	Sep 13 (1) $m	Sep 14 v Sep 13 %	Sep 14 $m	Mar 14 $m	Sep 14 v Mar 14 %
Personnel expenses	**4,799**	4,755	(0.9)	**2,386**	2,413	1.1
Occupancy related expenses	**828**	784	(5.6)	**413**	415	0.5
General expenses	**4,553**	2,871	(58.6)	**2,925**	1,628	(79.7)
Total operating expenses	**10,180**	8,410	(21.0)	**5,724**	4,456	(28.5)

(1) *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes and for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

Operating Expenses - Contribution to Net Increase (1)



(1) *At constant exchange rates.*
* *Corporate Functions and Other includes Group Funding, Group Business Services, Specialised Group Assets, Great Western Bank and other supporting units.*

September 2014 v September 2013

Operating expenses increased by $1,770 million or 21.0% against September 2013. Excluding specified items (detailed on page 20) and the impact of foreign exchange ($496 million), operating expenses increased by $55 million or 0.7% mainly due to increased costs supporting transformational and regulatory projects and continued investment in the business. This increase was partially offset by restructuring costs in the September 2013 year not repeating this year.

Personnel expenses increased by $44 million or 0.9%. Excluding the impact of specified items (detailed on page 20) and foreign exchange ($146 million), personnel expenses decreased by $76 million or 1.6% due to restructuring costs included in the September 2013 year not repeating this year and organisational realignment savings. This was partially offset by continued investment in the business, to support increased customer activity and to drive volume growth, combined with Enterprise Bargaining Agreement wage increases and increased regulatory spend.

Occupancy related expenses increased by $44 million or 5.6% ($12 million or 1.5% excluding foreign exchange) reflecting higher operating lease expenses, additional offices in Asia, together with the opening of a new data centre in Australia.

General expenses increased by $1,682 million or 58.6%. Excluding specified items (detailed on page 20) and the impact of foreign exchange ($318 million), general expenses increased by $119 million or 4.6%, reflecting higher operational costs supporting transformational and regulatory projects, together with higher marketing costs due to new brand campaigns during the year.

September 2014 v March 2014

Operating expenses increased by $1,268 million or 28.5% against March 2014. Excluding specified items (detailed on page 20) and the impact of foreign exchange ($6 million), operating expenses increased by $6 million or 0.2%.

Personnel expenses decreased by $27 million or 1.1%. Excluding the impact of specified items (detailed on page 20) and foreign exchange ($3 million), personnel expenses decreased by $4 million or 0.2% due to a reduction in employee incentive costs and organisational realignment savings, partially offset by investment in the Australian business across customer facing and servicing roles to support increased customer activity and drive volume growth.

Occupancy related expenses decreased by $2 million or 0.5%. Excluding foreign exchange, occupancy expenses were flat.

General expenses increased by $1,297 million or 79.7%. Excluding specified items (detailed on page 20) and the impact of foreign exchange ($4 million), general expenses increased by $11 million or 0.9% reflecting higher marketing costs in the half.

Full Time Equivalent Employees

	As at				
	30 Sep 14	31 Mar 14	30 Sep 13	Sep 14 v Sep 13 %	Sep 14 v Mar 14 %
Australian Banking [(1)]	**24,391**	24,390	23,793	(2.5)	-
NAB Wealth	**4,840**	4,836	4,960	2.4	(0.1)
NZ Banking	**4,718**	4,719	4,671	(1.0)	-
UK Banking	**7,278**	7,103	7,013	(3.8)	(2.5)
NAB UK Commercial Real Estate	**183**	201	220	16.8	9.0
Corporate Functions and Other [(2)]	**1,443**	1,470	1,507	4.2	1.8
Total full time equivalent employees (FTEs)	**42,853**	42,719	42,164	(1.6)	(0.3)
Average half year FTEs	**42,987**	42,234	42,543	(1.0)	(1.8)

(1) The Australian Banking division is described on page 46.

(2) Corporate Functions and Other includes Specialised Group Assets and Great Western Bank. Other support function FTEs are fully attributed to the relevant business.

September 2014 v September 2013

Total FTEs have increased by 689 since September 2013.

Key FTE movements in each business were as follows:

- Australian Banking increased FTEs within customer facing and servicing roles, in response to increased customer activity and to drive volume growth. These increases were partially offset by efficiency savings from strategic initiatives and implementation of the organisational realignment
- NAB Wealth reduced FTEs due to efficiency savings from strategic initiatives and implementation of the organisational realignment, partially offset by additional project related FTE to support regulatory projects
- NZ Banking increased FTEs to support growth in key segments such as Agribusiness, and the transformational agenda
- UK Banking increased FTEs due to additional conduct related roles and project related FTE to support the regulatory and transformational agenda. These increases were partially offset by efficiency savings as part of the restructure of the business
- NAB UK Commercial Real Estate reduced FTEs in line with the wind down of the operation
- Corporate Functions and Other reduced FTEs due to lower operational requirements.

September 2014 v March 2014

Total FTEs have increased by 134 since March 2014.

Key FTE movements in each business were as follows:

- Australian Banking FTEs were flat with additional FTEs largely within customer facing and servicing roles, in response to increased customer activity and to drive volume growth. These increases were offset by efficiency savings from strategic initiatives and implementation of the organisational realignment
- NAB Wealth FTEs were relatively flat with additional project related FTEs to support regulatory projects, offset by efficiency savings from strategic initiatives and a decrease in temporary staff due to seasonality
- NZ Banking FTEs were flat
- UK Banking increased FTEs for additional resources in conduct related roles
- NAB UK Commercial Real Estate reduced FTEs in line with the wind down of the operation
- Corporate Functions and Other reduced FTEs due to lower operational requirements.

Investment Spend

	Year to			Half Year to		
	Sep 14 $m	Sep 13 $m	Sep 14 v Sep 13 %	Sep 14 $m	Mar 14 $m	Sep 14 v Mar 14 %
Infrastructure	**798**	688	16.0	**411**	387	6.2
Compliance / Operational Risk	**297**	240	23.8	**149**	148	0.7
Efficiency and Sustainable Revenue	**195**	195	-	**114**	81	40.7
Other	**54**	42	28.6	**26**	28	(7.1)
Total Investment Spend	**1,344**	1,165	15.4	**700**	644	8.7

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. Investment spend for the September 2014 full year was $1,344 million, an increase of $179 million or 15.4% against September 2013, and an increase of $56 million or 8.7% on the March 2014 half year. This reflects ongoing investment in initiatives to deliver the Group's strategic objectives and meet the Group's compliance obligations.

September 2014 v September 2013

Investment in infrastructure projects increased by $110 million or 16% against September 2013 largely due to continued investments in transformational programs including NextGen in Australia and New Zealand.

Spend on compliance and operational risk projects increased by $57 million or 23.8% against September 2013, driven by continued regulatory reform including: Comprehensive Credit Reporting, G20 and Dodd Frank, Foreign Account Taxation Compliance, Stronger Super Reform and preparing for accounting standard changes.

Investment in efficiency and sustainable revenue projects was flat against September 2013, reflecting a realignment of investment spend to key infrastructure and compliance projects. The key investments during the year focused on improving the customer's banking experience and mobile capability.

Year on year the spend in Australian Banking and Wealth went up $98 million or 10.1% to $1,072 million due to additional spend on compliance and infrastructure projects. The spend in NZ banking increased $40 million or 98% to $81 million driven by spend on infrastructure, mainly Nextgen NZ. In UK Banking investment spend increased $41 million or 27.5% to $191 million due to spend on infrastructure and efficiency projects.

September 2014 v March 2014

Investment in infrastructure projects increased by $24 million or 6.2% against the March 2014 half year, mainly due to continued investment in transformational programs including NextGen in New Zealand.

Spend on compliance and operational risk projects was flat against the March 2014 half year, as the Group continues to respond to regulatory reforms and prepare for accounting standard changes.

Investment in efficiency and sustainable revenue projects increased by $33 million or 40.7% against the March 2014 half year, with spending predominantly dedicated to improving the customer's banking experience and mobile capability.

Half on half spend in Australian Banking and Wealth was up $11 million or 2.1%, spend in NZ Banking was up $22 million or 73.6% and in UK Banking $23 million or 27.4%, largely for the same reasons as outlined in the full year.

Taxation

	Year to			Half Year to		
	Sep 14 $m	Sep 13 [(1)] $m	Sep 14 v Sep 13	Sep 14 $m	Mar 14 $m	Sep 14 v Mar 14
Income tax expense ($m)	**2,492**	2,284	(9.1%)	**1,229**	1,263	2.7%
Effective tax rate (%)	**31.7**	27.8	(390 bps)	**36.7**	28.0	(870 bps)

(1) *Restated to include Payment Protection Insurance provision charges for cash earnings purposes and for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

September 2014 v September 2013

Income tax expense for the September 2014 full year was $208 million or 9.1% higher than September 2013 full year, despite the decrease in cash earnings during the period. The increase was driven by significant one-off tax related items which increased tax expense during 2014. These include the New York branch deferred tax asset (DTA) provision, tax rate differences on UK losses, including a resultant restatement of the deferred tax balances for the change in the UK tax rate, and a change in the treatment of prior period Research and Development (R&D) tax offsets.

The **effective income tax rate** for the September 2014 full year of 31.7% is significantly higher than the September 2013 full year of 27.8%. The effective tax rate would be broadly consistent with the prior year excluding the significant one-off items noted above.

September 2014 v March 2014

Income tax expense for the September 2014 half year was $34 million or 2.7% lower than the March 2014 half year. The decrease was driven by lower cash earnings partially offset by an increase due to significant one-off tax related items in the September 2014 half year. These include the New York branch DTA provision, tax rate differences on UK losses, including a resultant restatement of the deferred tax balances for the change in the UK tax rate, and a change in the treatment of prior period R&D tax offsets.

The **effective income tax rate** for the September 2014 half year of 36.7% is significantly higher than the March 2014 half year of 28.0%. The effective tax rate would be broadly consistent with the prior half year excluding the significant one-off items noted above.

Lending

	As at				
	30 Sep 14 $m	31 Mar 14 $m	30 Sep 13 $m	Sep 14 v Sep 13 %	Sep 14 v Mar 14 %
Housing					
Australian Banking [(1)]	**249,633**	241,080	234,376	6.5	3.5
NZ Banking	**27,298**	27,949	26,213	4.1	(2.3)
UK Banking	**34,257**	30,800	28,016	22.3	11.2
Corporate Functions and Other [(3)]	**851**	798	758	12.3	6.6
Total housing	**312,039**	300,627	289,363	7.8	3.8
Non-housing					
Australian Banking [(1) (2)]	**174,096**	170,886	170,156	2.3	1.9
NAB Wealth	**59**	75	55	7.3	(21.3)
NZ Banking	**30,070**	30,931	28,970	3.8	(2.8)
UK Banking	**17,190**	17,435	17,905	(4.0)	(1.4)
NAB UK Commercial Real Estate	**4,018**	6,004	6,960	(42.3)	(33.1)
Corporate Functions and Other [(3)]	**7,889**	8,214	8,670	(9.0)	(4.0)
Total non-housing	**233,322**	233,545	232,716	0.3	(0.1)
Gross loans and advances including acceptances	**545,361**	534,172	522,079	4.5	2.1

(1) *The Australian Banking division is described on page 46.*

(2) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

(3) *Corporate Functions and Other includes Group Funding, Specialised Group Assets, Great Western Bank and other supporting units.*

September 2014 v September 2013

Lending (gross loans and advances including acceptances) increased by $23.3 billion or 4.5% on September 2013. Excluding foreign exchange, lending increased by $17.9 billion or 3.4%. This increase was primarily due to the continuing momentum in housing lending, partially offset by the continued run-off of the NAB UK CRE portfolio.

Housing lending increased by $22.7 billion or 7.8% on September 2013. Excluding foreign exchange, the increase was $20.1 billion or 7.0% mainly due to:
- An increase of $15.1 billion in Australia, largely attributable to growth in both proprietary and broker channels
- An increase of $4.0 billion in UK Banking, primarily via broker channels with the continued strategy of focussing on housing loans
- An increase of $1.0 billion in NZ Banking due to continued momentum in market growth, although this was subdued due to regulatory limits and market competition.

Non-housing lending increased by $0.6 billion or 0.3% on September 2013. Excluding foreign exchange, non-housing lending decreased by $2.2 billion or 0.9% mainly due to:
- A decrease in the NAB UK CRE portfolio of $3.2 billion, reflecting the sale of assets in the year and continued run-off of the portfolio
- A decrease of $1.8 billion in UK Banking due to the subdued demand for credit, risk appetite settings and the impact of business restructuring
- A decrease of $1.3 billion in Corporate Functions and Other from the continued run-down of the SGA portfolio
- An increase of $3.1 billion in Australian Banking, reflecting an increase in the Australian business lending franchise, lending in Asia and Specialised Finance
- An increase of $1.0 billion in NZ Banking as a result of growth in the business lending portfolio.

September 2014 v March 2014

Lending increased by $11.2 billion or 2.1% on March 2014. Excluding foreign exchange, lending increased by $11.5 billion or 2.1%.

Housing lending increased by $11.4 billion or 3.8% on March 2014. Excluding foreign exchange, the increase was $11.7 billion or 3.9% mainly due to:
- An increase of $8.4 billion in Australia, attributable to growth in both proprietary and broker channels
- An increase of $2.5 billion in UK Banking, driven by the strategy to focus on housing loans
- An increase of $0.8 billion in NZ Banking mainly due to continued momentum in market growth.

Non-housing lending decreased by $0.2 billion or 0.1% on March 2014. Excluding foreign exchange, non-housing lending decreased by $0.2 billion or 0.1%, mainly due to:
- A decrease in the NAB UK CRE portfolio of $2.1 billion, reflecting the sale of assets in the half and continued run-off of the portfolio
- A decrease in UK Banking of $0.8 billion due to the subdued demand for credit, risk appetite settings and the impact of business restructuring
- A decrease in Corporate Functions and Other of $0.7 billion from the continued run-down of the SGA portfolio
- An increase in Australian Banking of $2.7 billion, reflecting an increase in the Australian business lending franchise and in Specialised Finance
- An increase in NZ Banking of $0.7 billion mainly due to growth in the business lending portfolio.

Goodwill and Other Intangible Assets

Goodwill increased by $47 million or 0.9% from September 2013, due to the effects of foreign exchange.

Intangible assets comprise capitalised software and other intangible assets. Intangible assets increased by $32 million from September 2013. The increase was attributable to continued investment in NextGen along with efficiency and compliance projects, partially offset by amortisation, and the impact of a change in R&D tax policy, as well as impairments taken in the September 2014 half. Following the annual impairment assessment of capitalised software, a $297 million impairment was taken against individually significant assets, predominantly in the NAB Wealth and Australian Banking businesses, and other smaller assets in the UK and NZ region. Included within the above impairment charge is $106 million for certain assets related to the NextGen capitalised software balance, other than core banking platform assets where no impairment is required. Details of specified items can be found in Section 3, Review of Group Operations and Results.

The Group continues to invest in software to support its strategic objectives. Major investments currently being undertaken are:

- In Australia, continued investment in the transformational agenda, including NextGen, regulatory compliance initiatives, and enhancing the digital capabilities of the franchise
- In the UK, continued investment in software to support regulatory and compliance initiatives, as well as investment in refreshing of key banking systems
- In New Zealand, continued spend on capabilities to support the implementation of the BNZ strategic plan, including NextGen.

The movement in capitalised software is as follows:

	Year ended		Half year ended	
	Sep 14 $m	**Sep 13 $m**	**Sep 14 $m**	**Mar 14 $m**
Balance at beginning of period	**1,998**	1,454	**2,220**	1,998
Additions	**738**	754	**394**	344
Disposals and write-offs	**(340)**	(4)	**(339)**	(1)
Amortisation	**(296)**	(245)	**(153)**	(143)
Foreign currency translation adjustments	**26**	39	**4**	22
Capitalised software	**2,126**	1,998	**2,126**	2,220

Customer Deposits

	As at				
	30 Sep 14 $m	31 Mar 14 $m	30 Sep 13 $m	Sep 14 v Sep 13 %	Sep 14 v Mar 14 %
Australian Banking [(1)(2)]	299,197	291,741	280,782	6.6	2.6
NZ Banking	39,463	39,575	36,308	8.7	(0.3)
UK Banking	44,334	41,865	41,426	7.0	5.9
NAB UK Commercial Real Estate	2	4	5	(60.0)	(50.0)
Corporate Functions and Other [(3)]	8,058	7,869	7,467	7.9	2.4
Total customer deposits	391,054	381,054	365,988	6.8	2.6

(1) *The Australian Banking division is described on page 46.*

(2) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

(3) *Corporate Functions and Other includes Group Funding, Specialised Group Assets, Great Western Bank and other supporting units*

September 2014 v September 2013

Customer deposits have increased by $25.1 billion or 6.8% since September 2013. Excluding foreign exchange, customer deposits have increased by $20.1 billion or 5.5%. This is as a result of the Group's continued strategy to focus on sustainable customer deposits in line with Basel III requirements as a source of funding to strengthen the balance sheet. This growth (excluding foreign exchange) was mainly due to:

- An increase of $17.1 billion or 6.1% in Australian Banking reflecting continued growth in on-demand deposits in the proprietary channel, as well as UBank. This was partially offset by a fall in term deposits
- An increase of $3.0 billion or 8.3% in New Zealand Banking. This was due to growth in both on-demand and short-term deposits, as well as term deposits
- UK Banking was flat for the period with an increase in on-demand deposits being offset by a fall in term deposits.

September 2014 v March 2014

Customer deposits have increased by $10 billion or 2.6% since March 2014. Excluding foreign exchange, customer deposits have increased by $9.4 billion or 2.5%. This growth (excluding foreign exchange) was mainly attributable to:

- An increase of $6.5 billion or 2.2% in Australian Banking as a result of growth in on-demand deposits, partially offset by a fall in term deposits
- An increase in New Zealand Banking of $1.9 billion due to continued focus on attracting higher quality personal deposits to reduce reliance on wholesale funding and improve balance sheet strength
- An increase in UK Banking of $1.2 billion or 2.8%, driven by increases in on-demand and short-term deposits.

Asset Quality

Asset Quality trends continued to improve across the Group's major operating regions over the September 2014 full year.

Bad and Doubtful Debt Charge

	Year to		Half Year to	
	Sep 14 $m	**Sep 13 $m**	**Sep 14 $m**	**Mar 14 $m**
Specific charge to provide for bad and doubtful debts	**1,327**	2,169	**622**	705
Collective (write-back)/charge to provide for bad and doubtful debts	**(442)**	(246)	**(270)**	(172)
Total (write-back)/charge on investments - held to maturity	**(8)**	11	**(3)**	(5)
Total charge to provide for bad and doubtful debts	**877**	1,934	**349**	528

	Year to		Half Year to	
	Sep 14	**Sep 13**	**Sep 14**	**Mar 14**
Bad and doubtful debts charge to gross loans and acceptances (annualised)	**0.16%**	0.37%	**0.13%**	0.20%
Net write-offs to gross loans and acceptances (annualised) [1]	**0.30%**	0.42%	**0.31%**	0.30%

[1] *Net write-offs to gross loans and acceptances (annualised) restated to include net write-offs of fair value loans.*

Provisions for Bad and Doubtful Debts

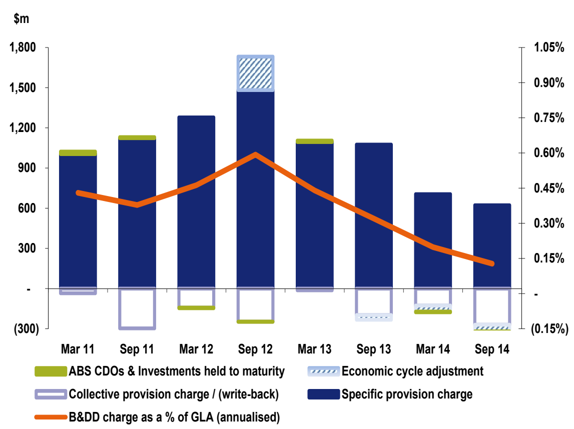
	As at		
	Sep 14 $m	**Mar 14 $m**	**Sep 13 $m**
Collective provision for bad and doubtful debts	**2,636**	2,912	2,959
Specific provision for bad and doubtful debts	**1,454**	1,954	2,030
Total provision for bad and doubtful debts [1]	**4,090**	4,866	4,989

[1] *Not included in total provisions for doubtful debts are provisions on investments - held to maturity of $26 million (March 2014 $61 million, September 2013 $77 million).*

	As at		
	Sep 14	**Mar 14**	**Sep 13**
Total provision to gross loans and acceptances	**0.75%**	0.91%	0.96%
Specific provision to gross impaired assets	**35.3%**	34.8%	32.0%
Collective provision to credit risk-weighted assets	**0.83%**	0.91%	0.94%
Collective provision including GRCL on a pre-tax basis (top-up) to credit risk-weighted assets	**1.08%**	1.15%	1.16%
Collective provision to gross loans and acceptances (excluding impaired assets)	**0.49%**	0.55%	0.57%

Bad and Doubtful Debt Charge

Half Yearly Total Bad and Doubtful Debt Charge



The total charge to provide for B&DDs for the September 2014 full year was $877 million, a reduction of $1,057 million or 54.7% when compared to the September 2013 full year. B&DD charges for the September 2014 half year also decreased when compared to the March 2014 half year.

Specific provision B&DD charges decreased by $842 million or 38.8% when compared to the September 2013 full year to $1,327 million, with improvements across all major operating regions. This was driven by:

- A noticeable decline in new categorisations and a 39% reduction in new gross impaired assets
- Continued improvement across the UK economy and stabilisation of the UK commercial property market, resulting in recoveries against previously provided for debt.

The September 2014 full year collective provision B&DD write-back of $442 million was driven by all major operating regions. This included a $50 million release from the economic cycle adjustment held at the Group level, which reflected an improvement in observed default rates in the Australian non-retail portfolio. In addition, $99 million (£55 million) was released from the NAB UK CRE overlay, reflecting the overall reduction in the size of the portfolio.

Provisions for Bad and Doubtful Debts

Total provisions for B&DDs fell by $899 million to $4,090 million during the September 2014 full year. Excluding foreign exchange movements, total provisions decreased by $1,000 million, of which $621 million related to NAB UK CRE and SGA.

Specific provisions decreased by $576 million to $1,454 million for the September 2014 full year, which was observed for all operating regions. The decrease was predominantly driven by:
- Lower gross impaired assets from a slowdown in the flow of new gross impaired assets across the Group
- A specific provision reduction due to the sale of NAB UK CRE loans in the second half of the year.

The Group coverage of specific provisions to gross impaired assets increased from 32.0% at September 2013 to 35.3% at September 2014.

Collective provisions have decreased by $323 million from September 2013 to $2,636 million. Excluding the centrally held economic cycle adjustment and NAB UK CRE overlay, the underlying reduction was largely driven by:
- A general improvement in the credit quality of the Group's portfolio
- A continued shift towards mortgage lending that requires lower collective provisions
- Portfolio run-off and repayments across targeted offshore regions.

These were partly offset by an increase in collective provisions on loans at fair value.

The collective provision to credit risk weighted assets ratio has fallen by 11 basis points from 0.94% at September 2013 to 0.83% at September 2014. Including the general reserve for credit losses (top-up), the collective provision coverage fell by eight basis points from 1.16% at September 2013 to 1.08% at September 2014.

90+ Days Past Due and Gross Impaired Assets

	As at		
	Sep 14	**Mar 14**	**Sep 13**
90+ days past due loans ($m)	**2,342**	2,526	2,463
Gross impaired assets ($m)	**4,122**	5,614	6,347
90+ days past due and gross impaired assets ($m)	**6,464**	8,140	8,810

	As at		
	Sep 14	**Mar 14**	**Sep 13**
90+ days past due loans to gross loans and acceptances	**0.43%**	0.47%	0.47%
Gross impaired assets to gross loans and acceptances	**0.76%**	1.05%	1.22%
90+ days past due and gross impaired assets to gross loans and acceptances	**1.19%**	1.52%	1.69%

Non-Impaired Assets 90+ Days Past Due

The Group ratio of 90+ days past due (90+ DPD) loans to gross loans and acceptances declined by four basis points to 0.43% over the twelve and six months to September 2014. The full year reduction was driven by portfolio run-off and repayments within NAB UK CRE, and improvements within the Australian Banking business lending portfolio and the NZ Banking mortgage lending portfolio.

Excluding UK Banking and NAB UK CRE, the 90+ DPD ratio at September 2014 was four basis points lower at 0.39%.

Gross Impaired Assets

The Group ratio of gross impaired assets to gross loans and acceptances (impaired asset ratio) decreased by 46 basis points from 1.22% at September 2013 to 0.76% at September 2014 and was 29 basis points lower when compared to March 2014. The impaired asset ratio improved for all regions during the September 2014 full year, mainly due to:
- Lower levels of new gross impaired assets, particularly in Australian Banking, UK Banking and NAB UK CRE
- Successful work-out strategies of long standing customers
- Run-off and repayments within the NAB UK CRE portfolio, including the sale of impaired loans.

These were partly offset by a reduction in write-off activity across the Group over the September 2014 full year.

Excluding UK Banking and NAB UK CRE, the impaired asset ratio at September 2014 was 25 basis points lower at 0.51%.

Net Write-Offs

The Group's net write-offs to gross loans and acceptances annualised ratio decreased by 12 basis points to 0.30% during the September 2014 full year. A reduction in the net write-offs ratio was experienced across all major operating regions.

Excluding UK Banking and NAB UK CRE, the ratio was five basis points lower at 0.25% at September 2014.

The net 12 month rolling write-off rate for the Group's retail portfolio remained stable over the twelve months to September 2014 at 0.14%.

Commercial Property Portfolio

Group Commercial Property by Type

	As at		
	Sep 14	Mar 14	Sep 13
Office	**26.3%**	26.2%	27.3%
Retail	**28.0%**	27.6%	26.7%
Industrial	**15.6%**	14.7%	14.0%
Residential	**11.0%**	12.2%	12.0%
Land	**7.4%**	7.6%	8.3%
Other	**7.2%**	7.3%	6.8%
Tourism & Leisure	**4.5%**	4.4%	4.9%
Total	100.0%	100.0%	100.0%

Group Commercial Property by Geography

	As at		
	Sep 14	Mar 14	Sep 13
Australia	**77.8%**	74.6%	73.8%
United Kingdom	**7.4%**	10.5%	12.3%
New Zealand	**10.9%**	11.2%	10.5%
USA	**2.5%**	2.3%	2.2%
Asia	**1.4%**	1.4%	1.2%
Total	100.0%	100.0%	100.0%

The Group's commercial property portfolio [(1)] decreased by $1.6 billion from September 2013 to $59.1 billion as at September 2014. The decrease was predominantly driven by the NAB UK CRE portfolio as a result of the continuation of run-off activity and repayments.

The Group commercial property portfolio represented 10.8% of gross loans and acceptances, a fall of 80 basis points when compared to September 2013.

The **Australian Banking** commercial property portfolio increased by $1.2 billion from September 2013 to $46 billion as at September 2014. This portfolio represented 10.8% of the division's gross loans and acceptances as at September 2014. The increase was largely in the 'Industrial' and 'Other Residential' portfolios.

NAB UK CRE commercial property gross loans and acceptances decreased over the full year to September 2014 by £1.9 billion to £2.1 billion, as the result of continued run-off activity and the sale of £0.6 billion assets in July 2014.

NZ Banking commercial property portfolio assets have remained stable at NZ$7.2 billion compared to September 2013. This portfolio represented 11.2% of the division's gross loans and acceptances as at September 2014.

[1)] *Measured as balances outstanding at September 2014 per APRA Commercial Property Return ARF230.*

Capital Management and Funding

Balance Sheet Management Overview

The Group maintains a strong capital, funding and liquidity position, in line with its ongoing commitment to build balance sheet strength.

During the second half of the year, the Group has accessed a diverse range of wholesale funding across senior and secured debt markets.

The Group remains vigilant in its evaluation of the economic and regulatory environment, and continues to ensure the balance sheet remains strong to enable it to respond to changing market and regulatory conditions.

Regulatory Reform

APRA finalised its liquidity standard APS 210 during the year which provided certainty in the Group's continued transition towards compliance.

The Group's Basel III liquidity transition strategy is focused on the quality of liquid assets and the stability of the funding that underpins the Liquidity Coverage Ratio (LCR).

The qualitative aspects of this standard came into force on 1 January 2014, while compliance with the LCR is set to commence from 1 January 2015.

The availability of the Reserve Bank of Australia's Committed Liquidity Facility remains central to APRA's liquidity standard.

Other Reform Proposals

The Group also remains focused on other areas of regulatory change. Key reform proposals that may affect its capital and funding include:

- On 5 May 2014, the Group announced that it had received notification from APRA regarding the definition of entities to be included within the composition of a Level 2 Authorised Deposit-Taking Institution (ADI) group. The change is expected to remove over time the capital benefit that NAB gains from the debt on the National Wealth Management Holdings Ltd (NWMH) balance sheet. As of 30 September 2014, NWMH has $1.75 billion of debt outstanding, which is equivalent to 47 basis points of Common Equity Tier 1 (CET1) capital. This is $225 million lower than at 31 March 2014, in line with the APRA approved transition period, which will allow the capital benefit of the majority of the outstanding debt to be progressively reduced through to December 2017
- APRA's announcement of Level 3 Conglomerate Supervision requirements, which include a Level 3 prudential capital requirement. Final standards were released by APRA in August 2014 and the implementation date has been deferred, pending the release of recommendations from the Australian Federal Government's Financial System Inquiry. APRA has confirmed a minimum 12 month transition period will be provided once an implementation date is established, and has stated that quantitative impact analysis suggests that no potential Level 3 Group would be required to raise additional capital as a result of the implementation of the proposed Level 3 framework
- APRA's consultation earlier this year on revisions to APRA Prudential Standard APS 120 "Securitisation", which is aimed at moving towards a more flexible and principles based securitisation framework in Australia
- The Basel Committee on Banking Supervision (BCBS) endorsement of the leverage ratio framework and associated disclosure requirements, with migration to Pillar 1 treatment from 1 January 2018. APRA commenced consultation on the implementation of the leverage disclosure requirements, in conjunction with proposed public disclosure for LCR and the Globally Systematically Important Banks indicators in September 2014. APRA is proposing compliance with the leverage ratio disclosure requirements from the date of lodgement of the ADI's first financial report, on or after 1 January 2015
- The Australian Federal Government's Financial System Inquiry (Inquiry) which is charged with examining how Australia's financial system could be positioned to support evolving needs and economic growth. Both capital and funding are key considerations of the Inquiry, and recommendations for Government consideration are due to be released in November 2014
- The enhanced prudential requirements for foreign banking organisations under Title I of the *US Dodd-Frank Act*. The final rule is due to take effect in July 2016
- The UK Government's Financial Services (Bank Reform) Act was approved by the UK Parliament in December 2013. The Act is due to come into force on 1 January 2019. Amongst other requirements, it seeks to protect deposit holders and will affect the structure and the amount of capital held by many UK banks. As Clydesdale Bank is a retail bank, the proposed ring-fencing of retail banking (away from investment banking) is expected to be less onerous than for most large UK banks
- The European Union's final rules to implement Basel III were implemented in the UK from 1 January 2014. This implementation affects the Group's UK based businesses, principally Clydesdale Bank plc. The UK business has noted the changes in capital requirements under the implementation of Basel III and will work with the regulator to ensure it continues to meet capital requirements.

Capital Management

The Group's capital management strategy is focused on adequacy, efficiency and flexibility. The capital adequacy objective focuses on holding capital in excess of the internal risk-based assessment of required capital, meeting regulatory requirements, maintaining capital consistent with the Group's balance sheet risk appetite, and ensuring investors' expectations are met. This approach is consistent across the Group's subsidiaries.

As announced at the Group's half year results, the Group's CET1 target has been revised to operate between 8.75% and 9.25% from 1 January 2016, based on current regulatory requirements to reflect the Domestic Systemically Important Banks (D-SIB) requirement of 1% announced by APRA in December 2013. The Group will continue to regularly review its operating target levels and aims to retain flexibility in executing capital initiatives, so that it is able to support balance sheet strength.

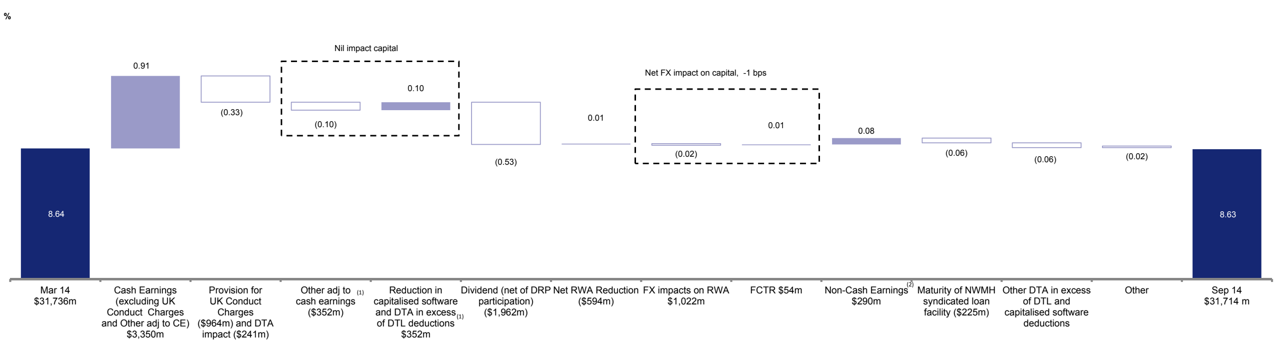
Capital Ratios

Capital ratios and risk-weighted assets (RWA) are set out below:

Capital Ratios	As at 30 Sep 14 %	As at 31 Mar 14 %	As at 30 Sep 13 %	Sep 14 v Sep 13	Sep 14 v Mar 14
Common Equity Tier 1 ratio	**8.63**	8.64	8.43	20 bps	(1 bps)
Tier 1 ratio	**10.81**	10.83	10.35	46 bps	(2 bps)
Total capital ratio	**12.16**	12.17	11.80	36 bps	(1 bps)

Risk-weighted assets	As at 30 Sep 14 $m	As at 31 Mar 14 $m	As at 30 Sep 13 $m	Sep 14 v Sep 13	Sep 14 v Mar 14
Credit risk	**318,374**	318,339	314,674	1.2	0.0
Market risk	**4,923**	5,791	5,191	(5.2)	(15.0)
Operational risk	**36,534**	36,280	34,749	5.1	0.7
Interest rate risk in the banking book	**7,821**	6,814	7,464	4.8	14.8
Total risk-weighted assets	**367,652**	367,224	362,078	1.5	0.1

Movements in Basel III Common Equity Tier 1 Ratio



(1) *Other adjustments to cash earnings include the impairment of capitalised software and the NY DTA provision, which has a corresponding reduction in capitalised software and the DTA in excess of DTL deduction.*

(2) *Non-cash earnings impact after adjusting for distributions, treasury shares and amortisation of acquired intangibles.*

Capital Movements During the Period

The Group's CET1 ratio was 8.63% at 30 September 2014.

The key movements in capital in the September 2014 half year include:

- Earnings (excluding UK conduct charges) less dividend net of Dividend Reinvestment Plan (DRP) participation (38 basis points)
- Impacts of additional provisions for customer redress relating to Payment Protection Insurance (PPI) and interest rate hedging products in the UK operations (33 basis points)
- RWA growth of $0.4 billion (one basis point), driven by foreign exchange (FX) impacts on RWA of $1.0 billion and net underlying RWA reduction of $0.6 billion. This includes:
    - stable Credit Risk RWA
    - an increase in Operational Risk RWA of $0.3 billion
    - a decrease in Market Risk RWA of $0.9 billion
    - an increase in Interest Rate Risk in the Banking Book RWA of $1.0 billion
- Favourable non-cash earnings mainly due to fair value and hedge ineffectiveness (eight basis points)
- Maturity of the $225 million NWMH syndicated facility in August 2014, following APRA's revision of the composition of the Level 2 ADI Group (six basis points)
- Other includes regulatory methodology changes, deconsolidation of wealth management equity and other immaterial movements (two basis points).

Dividend and Dividend Reinvestment Plan (DRP)

The Group periodically adjusts the DRP to reflect the capital position and outlook. The final dividend has been maintained at 99 cents and the Group will offer a 1.5% discount on the DRP, with no participation limit.

The Group has entered into an agreement to have the DRP on the final dividend partially underwritten to an amount of $800 million over and above the participation in the DRP. This will incrementally support the Group's capital position by approximately 22 basis points.

UK Defined Benefit Pension Scheme

The Group's UK subsidiary, Clydesdale Bank plc, participates in a defined benefit pension scheme (the Scheme). During the period March 2014 to September 2014, the Scheme's position improved by £196 million from a deficit of £147 million to a surplus of £49 million. The improvement in the Scheme's position was mostly due to a £150m scheduled cash contribution paid on 6 June 2014.

Tier 1 Capital Initiatives

On 30 June 2014, the Company exercised its right to call the BNZ Income Securities Limited Perpetual Non-cumulative Shares II (BNZIS II) of NZD 260 million, originally issued on 26 June 2009. The BNZIS II will no longer qualify as Tier 1 capital for the Group.

Pillar 3 Disclosures

Further disclosures with respect to capital adequacy and risk management will be made in the September 2014 Pillar 3 Report as required by APRA Prudential Standard APS 330 “Public Disclosure”.

Funding

The Group continues to explore opportunities to enhance and diversify its funding sources.

Funding Indices

The Group employs a range of internal Board approved metrics to set its risk appetite and measure balance sheet strength. A key structural measure used is the Stable Funding Index (SFI), which is made up of the Customer Funding Index (CFI) and 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 one year.

The Group's funding indices have increased over the September 2014 year. With the Group CFI improving from 69.4% to 70.4% while the Group SFI increased from 89.2% to 90.4%. The SFI was supported by strong deposit growth in the Australian region, coupled with subdued credit growth. In addition, a weaker Australian dollar has raised the value of term wholesale funding in Australian dollar terms.

Group Funding Indices (CFI, TFI and SFI)

	As at			
	Sep 14	Sep 13	Sep 12	Sep 11
Group Funding Indices	%	%	%	%
Customer Funding Index	**70.4**	69.4	66.3	65.5
Term Funding Index	**20.0**	19.8	19.3	20.0
Stable Funding Index	**90.4**	89.2	85.6	85.5

Customer Funding

The Group has continued to grow deposits over the September 2014 year with an emphasis on funds with stable characteristics to support the transition to Basel III, whilst also taking into account current market conditions and funding requirements.

The Monthly Banking Statistics published by APRA show that for the 12 months ended August 2014:

- Australian domestic household deposits have grown by 10.8% (1.2x system growth)
- Business deposits (excluding deposits from financial corporations and households) have grown by 3.3% (0.5x system growth)
- Financial corporation deposits have grown by 13.9% (1.5x system growth), noting financial corporation deposits include custodial, self-managed super funds and operational accounts which are a source of more stable deposits under the Basel III liquidity standard.

Term Wholesale Funding

Global funding conditions have been supportive of term issuance during the September 2014 year. Whilst conditions are reasonably stable, markets remain sensitive to ongoing macroeconomic, geopolitical and financial risks.

The Group maintains a well-diversified funding profile and has raised $28.2 billion in the September 2014 year.

The Company has raised $24.9 billion, including $19 billion senior unsecured and $5.9 billion of secured funding (comprising of both covered bonds and residential mortgage backed securities (RMBS)) during the September 2014 year. In terms of subsidiaries, Bank of New Zealand raised $2.0 billion, Clydesdale Bank raised $1.1 billion and National Wealth Management Holdings Limited raised $220 million during the September 2014 year.

The weighted average maturity of term wholesale funding raised by the Group over the September 2014 year was approximately 5.1 years to the first call date. The weighted average remaining maturity of the Group's term wholesale funding portfolio is 3.3 years (4.0 years for TFI qualifying debt, which only includes debt with more than 12 months remaining term to maturity). The weighted average maturity of term wholesale funding raised by the Company over the September 2014 year was approximately 5.1 years to the first call date, compared to 4.9 years for the September 2013 financial year. Term wholesale funding raised in foreign currency is swapped to Australian dollar terms at the time of issuance. The average cost of term wholesale funding raised by the Company (including the cost of swapping back to Australian dollars and fees) during the September 2014 year was approximately 83 basis points over Bank Bill Swap Rate (BBSW), compared to an average cost of 95 basis points over BBSW in the September 2013 financial year. The average cost of the Company's outstanding term funding portfolio for the September 2014 year was 138 basis points over BBSW, compared to 145 basis points over BBSW for the previous financial year.

Full Year 2014 Wholesale Funding by Deal Type ($28.2 billion)

	As at		
Wholesale Funding by Deal Type	Sep 14	Mar 14	Sep 13
Senior Public Offshore	**42%**	55%	34%
Senior Public Domestic	**21%**	11%	20%
Secured Public Offshore	**18%**	13%	20%
Secured Public Domestic	**6%**	9%	7%
Private Placements	**13%**	12%	15%
Subordinated Debt	**0%**	0%	4%
Total	**100%**	100%	100%

Full Year 2014 Wholesale Funding by Currency ($28.2 billion)

	As at		
Wholesale Funding by Currency	Sep 14	Mar 14	Sep 13
USD	**34%**	34%	38%
AUD	**29%**	18%	31%
EUR	**20%**	22%	18%
GBP	**5%**	9%	8%
JPY	**5%**	8%	0%
Other	**7%**	9%	5%
Total	**100%**	100%	100%

Short-term Wholesale Funding

The Group consistently accessed international and domestic short-term wholesale funding markets over the September 2014 year. The focus for the Group has been on maintaining the weighted average issuance maturity of short-term wholesale funding to approximately 180 days to support the Group's liquidity position.

In addition, repurchase agreements entered into are materially offset by reverse repurchase agreements with similar maturity profiles as part of normal trading activities.

Liquid Asset Portfolio

The Group maintains well diversified and high quality liquid asset portfolios to support regulatory and internal requirements in the various countries in which it operates. Total liquid assets held at 30 September 2014 were $117 billion (market value) excluding contingent liquidity, an increase of $10 billion from 30 September 2013 and an increase of $3 billion from 31 March 2014.

Holdings of liquid assets continue to support requirements for forthcoming regulatory changes. In particular, the Group held $104 billion of regulatory liquid assets (including both High Quality Liquid Assets (HQLA) and Committed Liquidity Facility eligible assets) as at the end of September 2014.

In addition to these liquid assets, the Group holds internal securitisation pools of Residential Mortgage Backed Securities (RMBS) as a source of contingent liquidity. Internal RMBS held at 30 September 2014 was $34 billion (post applicable central bank haircut). This was an increase of $9 billion from 31 March 2014.

Credit Ratings

The Group monitors rating agency developments closely and regularly communicates with them. Entities in the Group are rated by Standard and Poor's (S&P), Moody's Investor Service (Moody's) and Fitch Ratings (Fitch).

The Group's current long-term debt ratings are: National Australia Bank Limited AA-/Aa2/AA- (S&P/Moody's/Fitch); BNZ AA-/Aa3/AA-; Clydesdale Bank plc BBB+/Baa2/A; and National Wealth Management Holdings Limited A+ (S&P).

In May 2014, S&P changed the outlook of Clydesdale Bank plc from negative to stable and on August 8 it affirmed its 'BBB+/A-2' credit rating.

On 30 September 2014, S&P revised its credit ratings assessment criteria for hybrid instruments. Hybrid capital instruments issued prior to 1 January 2013 (Basel II instruments) are now rated BBB (previously BBB+) and hybrid capital instruments issued after 1 January 2013 (Basel III instruments) are now rated BBB- (previously BBB). NAB's Issuer Credit Rating remains AA- with a stable outlook. NAB's senior unsecured ratings and subordinated debt ratings are unchanged.

Other Matters

Corporate Responsibility (CR)

NAB's goal is to deliver sustainable, satisfactory returns to its investors. Fundamental to achieving this goal is NAB's belief in doing the right thing and helping employees and customers realise their potential. 'Wealth of Opportunity' is NAB's promise to create more opportunities for people, communities and the economy. It sets a path to help people develop a healthy relationship with money, cultivate prosperous communities and to support a future focused nation.

NAB's 2014 CR performance highlights are:

External awards, recognition and reporting

- NAB continues to support innovative thinking on the role that banks play in society, by sponsoring FSG's report, 'Banking on Shared Value'
- NAB was highlighted as the environmental, social and governance industry leader for banks in developed markets in a 2014 Sector Report published by Sustainalytics
- NAB was listed as one of the Ethisphere Institute's 'World's Most Ethical Companies' in 2014 for the fourth consecutive year
- NAB was recognised as a sustainability leader in the banking industry through its membership of the 2014 Dow Jones Sustainability World Index
- NAB was recognised as the Largest ASX 200 Renewable Energy Purchaser as well as being jointly awarded the CDP 2014 Climate Performance Leader Award, as part of the CDP ASX 200 Climate Leadership Award 2014
- NAB was the only Australian bank listed as a decoupling leader in the new Natural Capital Leaders Index released by Trucost and GreenBiz Group
- NAB's CR strategy was named Corporate Social Responsibility Program of the Year - Gold in the Asian Banking & Finance Retail Banking Awards 2014.

Customer initiatives

- To date, NAB has assisted more than 335,000 people with microfinance products through its partnership with Good Shepherd Microfinance, and has set an ambitious goal to reach one million people by 2018
- NAB's Indigenous Money Mentor Program continues to deliver significant benefits in individuals' standards of living and in family relationships across Australia
- NAB Care continues to help customers experiencing financial hardship. It has assisted over 15,000 customers experiencing financial hardship since October 2013
- NAB announced a $1 million fund to help build social impact investment opportunities.

Employee initiatives

- In August 2014, the Board approved an updated enterprise diversity and inclusion strategy for 2015-2017, including an updated Diversity and Inclusion Policy
- NAB continues to make progress towards its Group gender diversity targets, with women now representing 32% of Group subsidiary board members
- NAB's Indigenous Trainee programs deliver a social return of between $2.71 and $3.14 for every dollar invested. The most common outcomes reported by trainees are improved confidence and self-esteem and social and communication skills
- NAB has changed its engagement survey providers to Right Management, with this year's survey providing an overall employee engagement score of 42%, a level of engagement that is above the Right Management global financial services average
- NAB has committed to contributing one million employee volunteer hours by 2018. Since 2002, over 922,000 volunteer hours have been contributed by NAB employees to the community.

Community investment initiatives

- NAB continues to measure the impact of its community investment initiatives across social and financial inclusion, education and mental health. In 2014, NAB has completed Social Return on Investment reports across many programs, including: Indigenous Money Mentors, the MLC Community Foundation partnership with Lifeline, School-based and Full-Time Indigenous Trainee Programs, and the No Interest Loans Scheme (NILS)
- NAB's sixth Reconciliation Action Plan (RAP) was launched in February 2014. NAB's RAP is still only one of five in Australia to receive the elite 'Elevate' status from Reconciliation Australia. It is also still the only RAP to be independently assured
- NAB is committed to developing financially capable, socially minded and work ready young people. NAB is a founding corporate champion of 'Work Inspiration' in Australia, has launched a new program in Victoria called '$20 Boss', and continues to support the 'High Resolves' program
- In the past 7 years, the MLC Community Foundation has invested $6.9 million in grants and programs that focus on a mental health theory of change called HOPE. It has a major partnership with Lifeline Australia, where every dollar invested in the Lifeline Online Crisis Support Chat Service provides a social return valued at $8.40.

Environmental and supply chain initiatives

- NAB funded two Environmental Upgrade Agreements (EUAs) in 2014, including the upgrade of a Sydney CBD office building which was the first ever EUA with tenant pass-through in a multi-tenanted building. This allowed the benefits of the energy efficiency upgrade to be shared between both the owner and the tenants, breaking the split-incentive and bringing forward the investment in building improvements. NAB has now funded six of the seven EUAs privately funded to date, with a total investment of $12.5 million
- The Group continued to support the infrastructure demands of a lower carbon economy by financing two key renewable energy transactions during the year. Upon completion, Indonesia's Sarulla Geothermal plant will be the country's largest single-contract geothermal power project. The Group also structured and led the project financing of a portfolio of 16 wind farms owned by Infinis Wind Holdings Limited (Infinis), a wholly owned subsidiary of Infinis Energy plc in the UK, which was awarded Project Finance Magazine's 'European Onshore Wind Deal of the Year 2013'
- The Group's new air-cooled data centre in Melbourne was the first in Australia to be US Green Building Council LEED Platinum certified. The data centre uses significantly less energy and 98% less water than the average water consumption at the Group's existing data centres, and is integral to NAB meeting its technology transformation objectives. In recognition of its proactive and collaborative approach and contribution to NAB's operational efficiency, the developer and owner were awarded the 2014 Environmental Sustainability award at NAB's annual Supplier Sustainability Awards.

Section 4

Review of Divisional Operations and Results

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Divisional Performance Summary

Year ended 30 September 2014	Australian Banking [1] $m	NAB Wealth [2] $m	NZ Banking $m	UK Banking $m	NAB UK Commercial Real Estate $m	Corporate Functions & Other [3] [4] $m	Distributions & Eliminations $m	Group Cash Earnings $m
Net interest income	10,277	-	1,382	1,367	37	712	-	13,775
Other operating income	2,640	1,406	449	376	31	261	(59)	5,104
IoRE	-	34	-	-	-	-	-	34
Net operating income	12,917	1,440	1,831	1,743	68	973	(59)	18,913
Operating expenses	(5,267)	(950)	(737)	(1,233)	(57)	(1,995)	59	(10,180)
Underlying profit/(loss)	7,650	490	1,094	510	11	(1,022)	-	8,733
(Charge to provide for)/write-back of bad and doubtful debts	(741)	-	(80)	(145)	43	46	-	(877)
Cash earnings/(deficit) before tax and distributions	6,909	490	1,014	365	54	(976)	-	7,856
Income tax (expense)/benefit	(1,962)	(125)	(276)	(81)	(12)	(36)	-	(2,492)
Cash earnings/(deficit) before distributions	4,947	365	738	284	42	(1,012)	-	5,364
Distributions	-	-	-	-	-	-	(180)	(180)
Cash earnings/(deficit)	4,947	365	738	284	42	(1,012)	(180)	5,184
Key balance sheet items ($bn)								**Total**
Gross loans and acceptances (average)	413.2	-	57.6	48.3	5.9	8.8	-	533.8
Customer deposits (average)	298.6	-	38.9	42.2	-	7.7	-	387.4
Total risk-weighted assets (spot)	252.0	-	41.4	43.7	5.0	25.6	-	367.7

(1) *Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.*

(2) *Excludes Private Wealth (formerly part of NAB Wealth).*

(3) *Corporate Functions and Other includes Group Funding, Specialised Group Assets, Great Western Bank and other supporting units.*

(4) *Corporate Functions and Other includes the impacts of provisions taken for UK related payment protection insurance and interest rate hedging products.*

Note: The Divisional Performance Summary excluding foreign exchange rate movements is shown on pages 116 to 117.

Divisional Performance Summary

Year ended 30 September 2013	Australian Banking [1] [2] $m	NAB Wealth [3] $m	NZ Banking $m	UK Banking [2] $m	NAB UK Commercial Real Estate $m	Corporate Functions & Other [4] [5] [6] $m	Distributions & Eliminations $m	Group Cash Earnings $m
Net interest income	10,096	-	1,207	1,177	61	866	-	13,407
Other operating income	3,001	1,339	411	368	(17)	124	(101)	5,125
IoRE	-	31	-	-	-	-	-	31
Net operating income	13,097	1,370	1,618	1,545	44	990	(101)	18,563
Operating expenses	(5,080)	(949)	(651)	(1,130)	(56)	(645)	101	(8,410)
Underlying profit	8,017	421	967	415	(12)	345	-	10,153
Charge to provide for bad and doubtful debts	(1,114)	-	(81)	(247)	(477)	(15)	-	(1,934)
Cash earnings/(deficit) before tax and distributions	6,903	421	886	168	(489)	330	-	8,219
Income tax (expense)/benefit	(1,961)	(99)	(237)	(44)	114	(57)	-	(2,284)
Cash earnings/(deficit) before distributions	4,942	322	649	124	(375)	273	-	5,935
Distributions	-	-	-	-	-	-	(188)	(188)
Cash earnings/(deficit)	4,942	322	649	124	(375)	273	(188)	5,747
Key balance sheet items ($bn)								**Total**
Gross loans and acceptances (average)	397.9	-	49.8	42.4	7.7	8.9	-	506.7
Customer deposits (average)	277.8	-	31.7	38.6	-	7.0	-	355.1
Total risk-weighted assets (spot)	244.8	-	40.0	42.5	6.5	28.3	-	362.1

(1) *Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.*

(2) *Restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

(3) *Excludes Private Wealth (formerly part of NAB Wealth).*

(4) *Corporate Functions and Other includes Group Funding, Specialised Group Assets, Great Western Bank and other supporting units.*

(5) *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes.*

(6) *Corporate Functions and Other includes the impacts of provisions taken for UK related payment protection insurance and interest rate hedging products.*

Divisional Performance Summary

Half year ended 30 September 2014	Australian Banking [1] $m	NAB Wealth [2] $m	NZ Banking $m	UK Banking $m	NAB UK Commercial Real Estate $m	Corporate Functions & Other [3] [4] $m	Distributions & Eliminations $m	Group Cash Earnings $m
Net interest income	5,191	-	701	685	15	340	-	6,932
Other operating income	1,253	698	224	188	28	113	(29)	2,475
IoRE	-	19	-	-	-	-	-	19
Net operating income	6,444	717	925	873	43	453	(29)	9,426
Operating expenses	(2,632)	(459)	(373)	(622)	(25)	(1,642)	29	(5,724)
Underlying profit	3,812	258	552	251	18	(1,189)	-	3,702
(Charge to provide for)/write-back of bad and doubtful debts	(366)	-	(42)	(45)	51	53	-	(349)
Cash earnings/(deficit) before tax and distributions	3,446	258	510	206	69	(1,136)	-	3,353
Income tax (expense)/benefit	(973)	(67)	(137)	(53)	(15)	16	-	(1,229)
Cash earnings/(deficit) before distributions	2,473	191	373	153	54	(1,120)	-	2,124
Distributions	-	-	-	-	-	-	(90)	(90)
Cash earnings/(deficit)	2,473	191	373	153	54	(1,120)	(90)	2,034
Key balance sheet items ($bn)								**Total**
Gross loans and acceptances (average)	417.0	-	58.3	48.8	5.1	8.3	-	537.5
Customer deposits (average)	301.5	-	39.8	42.5	-	7.6	-	391.4
Total risk-weighted assets (spot)	252.0	-	41.4	43.7	5.0	25.6	-	367.7

(1) *Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.*

(2) *Excludes Private Wealth (formerly part of NAB Wealth).*

(3) *Corporate Functions and Other includes Group Funding, Specialised Group Assets, Great Western Bank and other supporting units.*

(4) *Corporate Functions and Other includes the impacts of provisions taken for UK related payment protection insurance and interest rate hedging products.*

Note: The Divisional Performance Summary excluding foreign exchange rate movements is shown on pages 116 to 117.

Divisional Performance Summary

Half year ended 31 March 2014	Australian Banking [1] $m	NAB Wealth [2] $m	NZ Banking $m	UK Banking $m	NAB UK Commercial Real Estate $m	Corporate Functions & Other [3] [4] $m	Distributions & Eliminations $m	Group Cash Earnings $m
Net interest income	5,086	-	681	682	22	372	-	6,843
Other operating income	1,387	708	225	188	3	148	(30)	2,629
IoRE	-	15	-	-	-	-	-	15
Net operating income	6,473	723	906	870	25	520	(30)	9,487
Operating expenses	(2,635)	(491)	(364)	(611)	(32)	(353)	30	(4,456)
Underlying profit/(loss)	3,838	232	542	259	(7)	167	-	5,031
Charge to provide for bad and doubtful debts	(375)	-	(38)	(100)	(8)	(7)	-	(528)
Cash earnings/(deficit) before tax and distributions	3,463	232	504	159	(15)	160	-	4,503
Income tax (expense)/benefit	(989)	(58)	(139)	(28)	3	(52)	-	(1,263)
Cash earnings/(deficit) before distributions	2,474	174	365	131	(12)	108	-	3,240
Distributions	-	-	-	-	-	-	(90)	(90)
Cash earnings/(deficit)	2,474	174	365	131	(12)	108	(90)	3,150
Key balance sheet items ($bn)								**Total**
Gross loans and acceptances (average)	409.3	-	57.0	47.9	6.5	9.3	-	530.0
Customer deposits (average)	295.6	-	38.0	41.7	-	7.9	-	383.2
Total risk-weighted assets (spot)	248.0	-	43.0	43.5	5.2	27.5	-	367.2

(1) Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.

(2) Excludes Private Wealth (formerly part of NAB Wealth).

(3) Corporate Functions and Other includes Group Funding, Specialised Group Assets, Great Western Bank and other supporting units.

(4) Corporate Functions and Other includes the impacts of provisions taken for UK related payment protection insurance and interest rate hedging products.

Divisional Asset Quality Ratio Summary

As at 30 September 2014	Australian Banking [1] %	NZ Banking %	UK Banking %	NAB UK Commercial Real Estate %	Group %
90+DPD to gross loans and acceptances	0.40	0.32	0.66	2.77	0.43
Gross impaired assets to gross loans and acceptances	0.52	0.44	1.35	23.12	0.76
90+DPD plus gross impaired assets to gross loans and acceptances	0.92	0.76	2.01	25.89	1.19
Specific provision to gross impaired assets	31.7	42.9	37.6	41.2	35.3
Collective provision to credit risk weighted assets	0.66	0.67	0.95	4.17	0.83
Total provision to gross loans and acceptances	0.52	0.62	1.15	14.70	0.75
Net write-offs to gross loans and acceptances (annualised) [2] [3]	0.24	0.23	0.43	5.64	0.30
Total provisions to net write-offs (annualised) [2] [3]	218	265	268	261	248
Bad and doubtful debt charge/(write-back) to gross loans and acceptances (annualised) [3]	0.17	0.14	0.29	(1.11)	0.16

(1) *Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.*

(2) *Net write-offs include net write-offs of fair value loans.*

(3) *September 2014 metrics refer to the full year ratio.*

As at 31 March 2014	Australian Banking [1] %	NZ Banking %	UK Banking %	NAB UK Commercial Real Estate %	Group %
90+DPD to gross loans and acceptances	0.40	0.40	0.80	4.26	0.47
Gross impaired assets to gross loans and acceptances	0.64	0.64	1.53	28.95	1.05
90+DPD plus gross impaired assets to gross loans and acceptances	1.04	1.04	2.33	33.21	1.52
Specific provision to gross impaired assets	30.4	33.4	39.8	40.6	34.8
Collective provision to credit risk weighted assets	0.67	0.67	1.01	5.83	0.91
Total provision to gross loans and acceptances	0.55	0.66	1.33	16.76	0.91
Net write-offs to gross loans and acceptances (annualised) [2] [3]	0.22	0.23	0.45	4.85	0.30
Total provisions to net write-offs (annualised) [2] [3]	252	278	292	344	282
Bad and doubtful debt charge to gross loans and acceptances (annualised) [3]	0.18	0.13	0.41	0.30	0.20

(1) *Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.*

(2) *Net write-offs restated to include net write-offs of fair value loans.*

(3) *March 2014 metrics refer to the March half year ratio annualised.*

As at 30 September 2013	Australian Banking [1] %	NZ Banking %	UK Banking %	NAB UK Commercial Real Estate %	Group %
90+DPD to gross loans and acceptances	0.42	0.44	0.59	3.17	0.47
Gross impaired assets to gross loans and acceptances	0.79	0.65	1.60	24.40	1.22
90+DPD plus gross impaired assets to gross loans and acceptances	1.21	1.09	2.19	27.57	1.69
Specific provision to gross impaired assets	26.1	36.8	36.9	40.6	32.0
Collective provision to credit risk weighted assets	0.71	0.69	1.06	5.23	0.94
Total provision to gross loans and acceptances	0.59	0.70	1.38	14.81	0.96
Net write-offs to gross loans and acceptances (annualised) [2] [3]	0.34	0.25	0.64	5.78	0.42
Total provisions to net write-offs (annualised) [2] [3]	173	276	217	256	227
Bad and doubtful debt charge to gross loans and acceptances (annualised) [3]	0.28	0.16	0.60	7.58	0.37

(1) *Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.*

(2) *Net write-offs restated to include net write-offs of fair value loans.*

(3) *September 2013 metrics refer to the full year ratio.*

Australian Banking [1]

Antony Cahill, Angela Mentis, Gavin Slater

Australian Banking offers a range of banking products and services to retail and business customers, ranging from small and medium enterprises through to Australia's largest institutions. Australian Banking comprises the Personal and Business Banking franchises, Fixed Income, Currencies and Commodities (FICC), Specialised Finance, Debt Markets, Asset Servicing and Treasury.

	Year to			Half Year to		
	Sep 14 $m	Sep 13 [2] $m	Sep 14 v Sep 13 %	Sep 14 $m	Mar 14 $m	Sep 14 v Mar 14 %
Net interest income	10,277	10,096	1.8	5,191	5,086	2.1
Other operating income	2,640	3,001	(12.0)	1,253	1,387	(9.7)
Net operating income	12,917	13,097	(1.4)	6,444	6,473	(0.4)
Operating expenses	(5,267)	(5,080)	(3.7)	(2,632)	(2,635)	0.1
Underlying profit	7,650	8,017	(4.6)	3,812	3,838	(0.7)
Charge to provide for bad and doubtful debts	(741)	(1,114)	33.5	(366)	(375)	2.4
Cash earnings before tax	6,909	6,903	0.1	3,446	3,463	(0.5)
Income tax expense	(1,962)	(1,961)	(0.1)	(973)	(989)	1.6
Cash earnings	**4,947**	**4,942**	**0.1**	**2,473**	**2,474**	**-**
Average Volumes ($bn)						
Housing lending	241.0	227.7	5.8	244.7	237.4	3.1
Business lending	162.3	160.8	0.9	162.5	162.6	(0.1)
Other lending	9.9	9.4	5.3	9.8	9.3	5.4
Gross loans and acceptances	413.2	397.9	3.8	417.0	409.3	1.9
Interest earning assets	639.5	601.1	6.4	641.1	625.0	2.6
Total assets	683.4	645.9	5.8	687.0	666.9	3.0
Customer deposits	298.6	277.8	7.5	301.5	295.6	2.0
Capital ($bn)						
Risk-weighted assets - credit risk (spot)	226.0	217.6	3.9	226.0	222.4	1.6
Total risk-weighted assets (spot)	252.0	244.8	2.9	252.0	248.0	1.6
Performance Measures						
Cash earnings on average assets	0.72%	0.77%	(5 bps)	0.72%	0.74%	(2 bps)
Cash earnings on average risk-weighted assets	1.98%	2.03%	(5 bps)	1.96%	2.00%	(4 bps)
Net interest margin	1.61%	1.68%	(7 bps)	1.61%	1.63%	(2 bps)
Cost to income ratio	40.8%	38.8%	(200 bps)	40.8%	40.7%	(10 bps)
'Jaws' [3]	(5.1%)	n/a	n/a	(0.3%)	(4.1%)	380 bps
Cash earnings per average FTE ($'000s)	204	205	(0.5)	202	207	(2.4)
FTEs (spot)	24,391	23,793	(2.5)	24,391	24,390	-

(1) *Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.*

(2) *Restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

(3) *September 2013 figure is not available due to the September 2012 results not being restated.*

	As at		
Market Share	Aug 14	Mar 14	Sep 13
Business lending [1]	22.8%	22.8%	23.8%
Business lending [2]	21.4%	21.6%	21.9%
Business deposits [1]	20.6%	20.6%	20.6%
Housing lending [2]	15.4%	15.4%	15.3%
Household deposits [1]	14.7%	14.8%	14.5%

(1) *Source: APRA Banking System.*

(2) *Source: RBA Financial System.*

	As at		
Distribution	Sep 14	Mar 14	Sep 13
Number of stores and business banking centres	862	861	863
Number of ATMs	3,068	3,113	3,118
Number of internet banking customers (million)	3.22	2.92	2.76

Australian Banking

Financial Analysis

September 2014 v September 2013

Cash earnings increased by $5 million or 0.1% against the September 2013 full year (decreased by $28 million or 0.6% excluding foreign exchange), driven by lower net operating income and higher expenses, which were partially offset by a lower charge for bad and doubtful debts.

Cash earnings on average assets decreased by five basis points as average asset growth outpaced the growth in cash earnings.

Cash earnings on average risk weighted assets decreased by five basis points, reflecting an increase in average risk weighted assets due to the effect of the introduction of the Basel III regulatory framework.

Net interest income increased by $181 million or 1.8% ($128 million or 1.3% excluding foreign exchange), with $144 million of the increase being offset by adverse movements in economic hedges. These movements related to interest rate risk management activities within the funding and banking book, offset in other operating income. Excluding this, net interest income decreased reflecting lower lending margins due to competitive lending market pressures and a lower earnings rate on non-interest bearing deposits and capital. These decreases were largely offset by housing lending growth combined with lower funding and deposit costs.

Average interest earning assets increased by $38.4 billion or 6.4%, mainly due to an increase in housing lending and business lending, combined with an increase in liquid assets to support Group liquidity.

Average customer deposits increased by $20.8 billion or 7.5% mainly due to an increase in on-demand deposits.

Net interest margin declined by seven basis points due to the reasons set out in the net interest income analysis above, combined with the adverse portfolio mix impact of holding a higher volume of liquid assets and marketable securities.

Other operating income decreased by $361 million or 12.0% ($403 million or 13.4% excluding foreign exchange), with $144 million of the decrease relating to economic hedges offset in net interest income. The underlying decrease of $217 million was mainly the result of lower trading income and a reduction in the sales of risk management products to the Group's customers following a stronger performance in 2013, combined with lower fee income on lending products.

Operating expenses increased by $187 million or 3.7% ($141 million or 2.8% excluding foreign exchange) mainly due to higher transformational and regulatory project spend, investment into the business to support increased customer activity and drive volume growth, combined with higher marketing costs. These effects were partially offset by organisational realignment savings and strong cost management.

The **charge to provide for bad and doubtful debts** decreased by $373 million or 33.5% largely driven by lower specific provisions across both business lending and housing lending products together with increased write-backs on some large exposures.

September 2014 v March 2014

Cash earnings decreased by $1 million or 0.0% against the March 2014 half year ($1 million or 0% excluding foreign exchange), driven by lower net operating income which was partially offset by a lower charge for bad and doubtful debts.

Cash earnings on average assets decreased by two basis points, reflecting lower margins in the banking businesses and a subdued trading performance as a result of lower levels of market volatility. These adverse effects were partially offset by a lower bad and doubtful debts charge.

Cash earnings on average risk weighted assets decreased by four basis points reflecting an increase in average risk weighted assets.

Net interest income increased by $105 million or 2.1% ($106 million or 2.1% excluding foreign exchange), with $56 million of the increase being offset by adverse movements on economic hedges relating to interest rate risk management activities within the Group's liquidity portfolio, included in other operating income. Excluding, this the increase in net interest income of $49 million was driven by continued growth in housing lending and lower deposit costs. These increases were partially offset by a decrease in lending margins due to competitive market pressures.

Average interest earning assets increased by $16.1 billion or 2.6%, due to an increase in housing lending, combined with growth in liquid assets to support Group liquidity.

Average customer deposits increased by $5.9 billion or 2.0% mainly as a result of an increase in on-demand deposits.

Net interest margin decreased by two basis points due to the reasons set out in the net interest income analysis above.

Other operating income decreased by $134 million or 9.7% ($134 million or 9.7% excluding foreign exchange), with $56 million of the decrease relating to economic hedges offset in net interest income. The underlying decrease of $78 million was driven by a reduction in trading income as a result of lower levels of market volatility.

Operating expenses decreased by $3 million or 0.1% ($1 million or 0% excluding foreign exchange). This was mainly due to third party procurement rebates and GST credits received in the half. These effects were partially offset by increased investment in the business to support increased customer activity and to drive volume growth.

The **charge to provide for bad and doubtful debts** decreased by $9 million or 2.4%, which was largely consistent with the March 2014 half year.

Australian Banking

Net Interest Income

	Year to			Half Year to		
	Sep 14 $m	Sep 13 $m	Sep 14 v Sep 13 %	Sep 14 $m	Mar 14 $m	Sep 14 v Mar 14 %
Housing lending	3,269	3,114	5.0	1,659	1,610	3.0
Business lending	3,577	3,746	(4.5)	1,772	1,805	(1.8)
Other banking products	867	947	(8.4)	422	445	(5.1)
Customer deposits	1,719	1,637	5.0	899	820	9.6
NAB risk management	845	652	29.6	439	406	8.1
Total net interest income	10,277	10,096	1.8	5,191	5,086	2.1

Net Interest Margin

	Year to			Half Year to		
	Sep 14 %	Sep 13 %	Sep 14 v Sep 13 bps	Sep 14 %	Mar 14 %	Sep 14 v Mar 14 bps
Australian Banking net interest margin	1.61%	1.68%	(7 bps)	1.61%	1.63%	(2 bps)
Housing lending	1.36%	1.37%	(1 bps)	1.35%	1.36%	(1 bps)
Business lending	2.20%	2.33%	(13 bps)	2.17%	2.23%	(6 bps)

September 2014 v September 2013

Net interest income increased by $181 million or 1.8% ($128 million or 1.3% excluding foreign exchange) against the September 2013 full year.

Housing lending net interest income increased by $155 million or 5.0% driven by volume increases and lower deposit and funding costs, which were partially offset by competitive pressure on pricing.

Housing lending net interest margin decreased by one basis point due to competitive pressure on pricing, which was partially offset by lower deposit and funding costs.

Business lending net interest income decreased by $169 million or 4.5% driven by lower earnings on capital, combined with competitive pressure on customer pricing. These effects were partially offset by increased volumes and lower deposit and funding costs.

Business lending net interest margin decreased by 13 basis points due to the factors outlined above.

Customer deposits net interest income increased by $82 million or 5.0% due to volume growth and repricing of on-demand and term deposit products, partially offset by lower earnings on non-interest bearing deposits.

Other banking products net interest income decreased by $80 million or 8.4% due to lower non-lending income, combined with lower volumes and competitive pressures on customer pricing in the unsecured lending portfolio.

NAB risk management net interest income increased by $193 million or 29.6%, with $144 million of the increase offset by adverse movements on economic hedges. These movements related to interest rate risk management activities within the liquidity, funding and banking book, offset in other operating income. The underlying increase of $50 million was mainly the result of favourable outcomes in interest rate risk management.

September 2014 v March 2014

Net interest income increased by $105 million or 2.1% ($106 million or 2.1% excluding foreign exchange) against the March 2014 half year.

Housing lending net interest income increased by $49 million or 3.0% driven by volume increases, combined with lower deposit costs. These effects were partially offset by competitive pressure on pricing.

Housing lending net interest margin decreased by one basis point driven by competitive pressure on pricing, partially offset by lower deposit and funding costs.

Business lending net interest income decreased by $33 million or 1.8% due to competitive pressure on customer pricing combined with lower earnings on capital, partially offset by lower deposit and funding costs.

Business lending net interest margin decreased by six basis points due to the factors outlined above.

Customer deposits net interest income increased by $79 million or 9.6% due to increased volumes and repricing of on-demand and term deposit products. These were partially offset by lower earnings on non-interest bearing deposits.

Other banking products net interest income decreased by $23 million or 5.1% due to increased competitive pressure on customer pricing in the unsecured lending portfolio.

NAB risk management net interest income increased by $33 million or 8.1%, with $56 million of the increase offset by adverse movements on economic hedges. These movements related to interest rate risk management activities within the liquidity, funding and banking book, offset in other operating income. The underlying decrease of $23 million was mainly due to lower trading income from bonds, reflecting market conditions.

Australian Banking

Other Operating Income

	Year to			Half Year to		
	Sep 14 $m	Sep 13 $m	Sep 14 v Sep 13 %	Sep 14 $m	Mar 14 $m	Sep 14 v Mar 14 %
Housing lending	266	273	(2.6)	133	133	-
Business lending	549	595	(7.7)	267	282	(5.3)
Other banking products (1)	924	914	1.1	484	440	10.0
Customer deposits	93	102	(8.8)	45	48	(6.3)
Customer risk management	790	869	(9.1)	414	376	10.1
NAB risk management	18	248	(92.7)	(90)	108	large
Total other operating income	2,640	3,001	(12.0)	1,253	1,387	(9.7)

(1) *Other banking products includes personal lending, credit cards, investment securities and margin lending.*

	Year to			Half Year to		
	Sep 14 $m	Sep 13 $m	Sep 14 v Sep 13 %	Sep 14 $m	Mar 14 $m	Sep 14 v Mar 14 %
Fees and commissions	1,713	1,705	0.5	872	841	3.7
Trading income	780	1,129	(30.9)	296	484	(38.8)
Other	147	167	(12.0)	85	62	37.1
Total other operating income	2,640	3,001	(12.0)	1,253	1,387	(9.7)

September 2014 v September 2013

Other operating income decreased by $361 million or 12.0% compared to the September 2013 full year ($403 million or 13.4% excluding foreign exchange).

Housing lending income decreased by $7 million or 2.6% due to lower management fees received from a third party relating to the management of their portfolio, which is in run-off.

Business lending income decreased $46 million or 7.7% lower as a result of lower fees due to competitive pressures.

Other banking products income increased by $10 million or 1.1% primarily as a result of asset sales in Debt Markets.

Customer deposits income decreased by $9 million or 8.8% due to lower account fees.

Customer risk management income decreased by $79 million or 9.1% due to a reduction in the sales of risk management products to the Group's customers following a strong performance in 2013.

NAB risk management income decreased by $230 million or 92.7%, with $144 million of the decrease relating to adverse movements on economic hedges. These movements related to interest rate risk management activities within the liquidity, funding and banking book, offset in net interest income. The underlying decrease of $86 million was mainly the result of a lower trading performance following a strong performance in 2013.

September 2014 v March 2014

Other operating income decreased by $134 million or 9.7% compared to the March 2014 half year.

Housing lending income was flat on the prior half.

Business lending income decreased by $15 million or 5.3% due to increased competitive pressures.

Other banking products income increased by $44 million or 10.0% as a result of an increase in transaction and unsecured lending fees.

Customer deposits income decreased by $3 million or 6.3% due to lower account fees.

Customer risk management income increased by $38 million or 10.1% as a result of the growth in sales of risk management products to the Group's customers combined with the impact of a methodology change to the valuation on derivatives.

NAB risk management income decreased by $198 million, with $56 million of the decrease relating to adverse movements on economic hedges. These movements relate to activities supporting Group liquidity, offset in net interest income. The underlying decrease of $142 million was as a result of a lower trading performance in the September 2014 half combined with higher credit valuation adjustments for derivatives and a methodology change to the valuation of derivatives (partially offset in Customer Risk Income). The NAB risk management loss of $90 million for the September 2014 half is comprised of adverse movements on economic hedges relating to activities supporting Group liquidity, funding and banking book interest rate risk management (offset in net interest income) combined with the impact of valuation adjustments on derivatives.

Australian Banking

Operating Expenses

	Year to			Half Year to		
	Sep 14 $m	Sep 13 $m	Sep 14 v Sep 13 %	Sep 14 $m	Mar 14 $m	Sep 14 v Mar 14 %
Personnel Expenses	**3,039**	2,962	(2.6)	**1,535**	1,504	(2.1)
Occupancy related expenses	**509**	483	(5.4)	**252**	257	1.9
General expenses	**1,719**	1,635	(5.1)	**845**	874	3.3
Total operating expenses	**5,267**	5,080	(3.7)	**2,632**	2,635	0.1

September 2014 v September 2013

Operating expenses increased by $187 million or 3.7% compared to the September 2014 full year ($141 million or 2.8% excluding foreign exchange).

Personnel expenses increased by $77 million or 2.6% ($51 million or 1.7% excluding foreign exchange). This was driven by investment into the business across both customer facing and servicing roles in response to increased customer activity and to drive volume growth, combined with Enterprise Bargaining Agreement wage increases. These increases were partially offset by organisational realignment savings.

Occupancy related expenses increased by $26 million or 5.4% driven by a rise in property rental costs, additional offices in Asia and the opening of a new data centre in Australia.

General expenses increased by $84 million or 5.1% ($64 million or 3.9% excluding foreign exchange) due to increased investment in transformational and regulatory projects, combined with higher marketing costs in brand campaigns and incremental costs from previously deployed projects. These were partially offset by third party procurement rebates and GST credits received in the year.

September 2014 v March 2014

Operating expenses decreased by $3 million or 0.1% compared to the March 2014 half year and $1 million or 0% excluding foreign exchange.

Personnel expenses increased by $31 million or 2.1% driven by increased investment in the business across customer-facing roles and servicing roles in response to a rise in customer activity. These increases were partially offset by organisational realignment savings.

Occupancy related expenses decreased by $5 million or 1.9% driven by consolidation of the Group's property portfolio.

General expenses decreased by $29 million or 3.3% due to third party procurement rebates, GST credits received in the half, combined with continued focus or efficiency initiatives.

Australian Banking

Bad and Doubtful Debt Charge

	Year to			Half Year to		
	Sep 14 $m	**Sep 13 $m**	**Sep 14 v Sep 13 %**	**Sep 14 $m**	**Mar 14 $m**	**Sep 14 v Mar 14 %**
Specific charge to provide for bad and doubtful debts	**885**	1,190	25.6	**457**	428	(6.8)
Collective (write-back)/charge to provide for bad and doubtful debts	**(144)**	(76)	89.5	**(91)**	(53)	71.7
Total charge to provide for bad and doubtful debts	**741**	1,114	33.5	**366**	375	2.4
Housing lending	**50**	75	33.3	**27**	23	(17.4)
Business lending	**472**	750	37.1	**258**	214	(20.6)
Other banking products [(1)]	**219**	289	24.2	**81**	138	41.3
Total charge to provide for bad and doubtful debts	**741**	1,114	33.5	**366**	375	2.4

(1) *Other banking products includes personal lending, credit cards, investment securities and margin lending.*

September 2014 v September 2013

The **charge to provide for bad and doubtful debts** decreased by $373 million or 33.5% compared to the September 2013 full year. This was largely due to:

- Lower specific provision charges across both business and housing lending as a result of lower levels of new impairments
- Higher levels of collective provision write-backs, largely driven by improved delinquency profile within the unsecured retail portfolio.

September 2014 v March 2014

The **charge to provide for bad and doubtful debts** decreased by $9 million or 2.4% compared to the March 2014 half year. This was primarily driven by:

- Higher levels of collective provision write-backs, due to improved delinquency profile within the unsecured retail portfolio
- Specific provision write-backs on large corporate exposures in the March 2014 half year not repeated in the September 2014 half year. These were partially offset by lower underlying specific provision charges for business lending.

Australian Banking

Asset Quality

	As at		
	Sep 14	**Mar 14**	**Sep 13**
Specific provision for doubtful debts ($m)	**698**	798	837
Collective provision for doubtful debts ($m)	**973**	1,074	1,121
Collective provision on loans at fair value ($m)	**357**	251	254
Collective provision on derivatives at fair value ($m)	**155**	155	164
90+DPD assets ($m)	**1,695**	1,634	1,713
Gross impaired assets ($m)	**2,200**	2,625	3,210
90+DPD to gross loans and acceptances (1)	**0.40%**	0.40%	0.42%
Gross impaired assets to gross loans and acceptances (1)	**0.52%**	0.64%	0.79%
90+DPD plus gross impaired assets to gross loans and acceptances (1)	**0.92%**	1.04%	1.21%
Specific provision to gross impaired assets	**31.7%**	30.4%	26.1%
Net write-offs to gross loans and acceptances (annualised) (1) (2)	**0.24%**	0.22%	0.34%
Total provision as a percentage of net write-offs (annualised) (2)	**218%**	252%	173%
Total provision to gross loans and acceptances (1)	**0.52%**	0.55%	0.59%
Bad and doubtful debt charge to gross loans and acceptances (annualised) (1) (2)	**0.17%**	0.18%	0.28%

(1) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

(2) *September 2013 and 2014 metrics refer to the full year ratio, the March 2014 metrics refer to the March half year ratio annualised.*

For the September 2014 half and full years, the credit quality of the Australian Banking portfolio has continued to improve.

The ratio of 90+DPD assets plus gross impaired assets to gross loans and acceptances improved by 29 basis points to 0.92% during the September 2014 full year and by 12 basis points during the September 2014 half year. The full year reduction was primarily driven by lower levels of new impaired assets in the housing and business lending portfolios.

Total provisions to gross loans and acceptances decreased by three basis points against the March 2014 half year to 0.52%, and by seven basis points against the September 2013 full year.

Total collective provisions for doubtful debts decreased against the September 2013 full year to $1,485 million. This was driven by a general improvement in credit quality and lower provisions for the unsecured retail portfolio.

Specific provisions for doubtful debts decreased against both the September 2013 full year and the March 2014 half year to $698 million. The reduction was largely due to lower levels of specific charges raised within business lending.

The coverage of specific provisions to gross impaired assets increased by 560 basis points to 31.7% during the September 2014 full year, predominantly due to a large reduction in the level of gross impaired assets.

During the September 2014 full year, the ratio of the bad and doubtful debt charge to gross loans and acceptances decreased by 11 basis points to 0.17% as a result of lower specific charges.

Australian Banking

Net Operating Income and Bad and Doubtful Debt Charge Analysis

	Year to			Half Year to		
	Sep 14 $m	Sep 13 $m	Sep 14 v Sep 13 %	Sep 14 $m	Mar 14 $m	Sep 14 v Mar 14 %
By Product						
Housing Lending	**3,535**	3,387	4.4	**1,792**	1,743	2.8
Business Lending	**4,126**	4,341	(5.0)	**2,039**	2,087	(2.3)
Other banking products [1]	**1,791**	1,861	(3.8)	**906**	885	2.4
Customer deposits	**1,812**	1,739	4.2	**944**	868	8.7
Customer risk management	**790**	869	(9.1)	**414**	376	10.1
NAB risk management	**863**	900	(4.1)	**349**	514	(32.1)
Net operating income	**12,917**	13,097	(1.4)	**6,444**	6,473	(0.4)

[1] *Other banking products includes personal lending, credit cards, investment securities and margin lending.*

	Year to			Half Year to		
	Sep 14 $m	Sep 13 $m	Sep 14 v Sep 13 %	Sep 14 $m	Mar 14 $m	Sep 14 v Mar 14 %
By Customer						
Personal Banking	**4,146**	3,916	5.9	**2,133**	2,013	5.9
Business Banking	**7,908**	8,281	(4.5)	**3,962**	3,946	0.4
NAB risk management	**863**	900	(4.1)	**349**	514	(32.1)
Net Operating Income	**12,917**	13,097	(1.4)	**6,444**	6,473	(0.4)

Bad and Doubtful Debt Charge

	Year to			Half Year to		
	Sep 14 $m	Sep 13 $m	Sep 14 v Sep 13 %	Sep 14 $m	Mar 14 $m	Sep 14 v Mar 14 %
Personal Banking	**237**	317	25.2	**96**	141	31.9
Business Banking	**504**	797	36.8	**270**	234	(15.4)
Total charge to provide for doubtful debts	**741**	1,114	33.5	**366**	375	2.4

NAB Wealth

Andrew Hagger

NAB Wealth provides superannuation, investments and insurance solutions to retail, corporate, and institutional clients. NAB Wealth operates one of the largest networks of financial advisers in Australia.

	Year to			Half Year to		
	Sep 14 $m	**Sep 13 $m**	**Sep 14 v Sep 13 %**	**Sep 14 $m**	**Mar 14 $m**	**Sep 14 v Mar 14 %**
Net investments income	**1,082**	1,022	5.9	**537**	545	(1.5)
Net insurance income [(1)]	**324**	317	2.2	**161**	163	(1.2)
IoRE	**34**	31	9.7	**19**	15	26.7
Net income	**1,440**	1,370	5.1	**717**	723	(0.8)
Operating expenses	**(950)**	(949)	(0.1)	**(459)**	(491)	6.5
Cash earnings before tax	**490**	421	16.4	**258**	232	11.2
Income tax expense	**(125)**	(99)	(26.3)	**(67)**	(58)	(15.5)
Cash earnings	**365**	322	13.4	**191**	174	9.8
Represented by:						
Investments	**305**	270	13.0	**158**	147	7.5
Insurance	**60**	52	15.4	**33**	27	22.2
Cash earnings	**365**	322	13.4	**191**	174	9.8
Planned and Experience Analysis - Insurance						
Planned profit margins	**124**	173	(28.3)	**63**	61	3.3
Experience profit/(loss)	**(64)**	(121)	47.1	**(30)**	(34)	11.8
Insurance cash earnings	**60**	52	15.4	**33**	27	22.2

(1) *The September 2014 half year period includes actuarial assumption changes which adversely affected cash earnings of $11m post-tax (March 2014 half year: $14m post-tax, September 2013 full year: $40m post-tax).*

Performance Measures [(2)]						
Funds under management (spot) ($m)	**158,052**	145,104	8.9	**158,052**	153,771	2.8
Funds under management (average) ($m)	**153,254**	135,255	13.3	**156,901**	149,614	4.9
Net funds flow ($m)	**2,116**	2,617	(19.1)	**(439)**	2,555	large
Cost to income ratio	**66.0%**	69.3%	330 bps	**64.0%**	67.9%	390 bps
Investment operating expenses to average FUM (bps)	**46**	52	6 bps	**44**	49	5 bps
Investment income to average FUM [(3)]	**71**	76	(5 bps)	**68**	73	(5 bps)
Annual inforce premiums (spot) ($m)	**1,691**	1,611	4.9	**1,691**	1,673	1.1
Annual inforce premiums (average) ($m)	**1,651**	1,568	5.3	**1,682**	1,642	2.4
Insurance cost to average inforce premiums (%)	**14**	16	200 bps	**14**	15	100 bps
Cash earnings per average FTE ($'000s)	**75**	63	19.0	**78**	72	8.3
FTEs (spot)	**4,840**	4,960	2.4	**4,840**	4,836	(0.1)

(2) *FUM excludes Trustee and Cash Management. FUM is reported on the basis of nabInvest's proportional ownership interest rather than the total FUM of these businesses.*

(3) *September 2013 includes sale of AREA Property Partners as previously disclosed.*

Annual Inforce Premiums (spot)	**As at Sep 14 $m**	**As at Mar 14 $m**	**As at Sep 13 $m**	**Sep 14 v Mar 14 %**	**Sep 14 v Sep 13 %**
Retail insurance	**1,260**	1,248	1,238	**1.0**	1.8
Group insurance	**431**	425	373	**1.3**	15.5
Total	**1,691**	1,673	1,611	**1.1**	4.9

NAB Wealth - Interest on Retained Earnings (IoRE) by Asset Class

	Year to					
	Sep 14			**Sep 13**		
IoRE by Asset Class	**Actual Earnings $m**	**Weighted Asset Balance $m**	**Earnings Rate [(4)] %**	**Actual Earnings $m**	**Weighted Asset Balance $m**	**Earnings Rate [(4)] %**
Equity	**24**	**179**	**13.4**	26	139	18.7
Fixed interest	**5**	**59**	**8.5**	2	51	3.9
Cash	**5**	**147**	**3.4**	3	145	2.1
IoRE before Tax	**34**			31		

(4) *The earnings rate is an annualised rate.*

NAB Wealth

Financial Highlights

September 2014 v September 2013

Cash earnings increased by $43 million or 13.4% when compared to the September 2013 year. This was largely driven by higher Investments earnings, with strong FUM growth benefiting from positive client net fund flows and strong investment markets. Insurance results also improved over the period.

Investments net income grew by $60 million or 5.9% against September 2013. Strong growth in FUM as a result of strong investment markets and positive net fund flows, was partly offset by lower margins. Margins have declined slightly over the year reflecting a shift in new business towards lower margin wholesale and institutional products, consistent with broader industry experience.

Insurance net income increased by $7 million or 2.2% against September 2013 due to improved claims experience and lower insurance reserves, partly offset by lower earnings on assets backing insurance policy liabilities and a reallocation of operating costs from expenses.

Operating expenses remained flat compared to September 2013 as a result of higher costs to support regulatory change initiatives being offset by a reallocation of operating costs to volume related expenses, together with improved cost control.

Average FUM grew by $18.0 billion or 13.3%, due to strong market performance and positive net funds flow.

Net funds flow decreased by $0.5 billion compared to September 2013, primarily due to fewer large client wins and the loss of a wholesale client in the September 2014 half year.

Insurance planned profit margins and experience profit/(loss)

Planned profit margins were lower in September 2014 compared to September 2013 due to higher planned claim experience assumptions.

Planned profit margins were not achieved primarily due to higher insurance reserves which were partly offset by improved claims experience.

Inforce premiums as at 30 September 2014 of $1.7 billion grew by $80 million or 4.9% compared to September 2013 due to improved pricing in Group insurance products.

September 2014 v March 2014

Cash earnings increased by $17 million or 9.8% against the March 2014 half year, reflecting positive investment markets, improved insurance claims and lower expenses.

Investments net income fell by $8 million or 1.5%. The decrease was driven by a change in business mix to lower margin products and a slightly weaker market performance at the end of the September 2014 half, partly offset by higher fees from increased average FUM balances.

Insurance net income remained flat compared to the March 2014 half year due to further insurance reserve increases, and a $14 million reallocation of operating costs to volume related expenses within net income offset by improved claims performance and stable lapse experience.

Operating expenses fell by $32 million or 6.5% compared to the prior half. The decrease was driven by a $14 million reallocation of operating costs to volume related expenses and improved cost control, partly offset by higher compliance and regulatory spend.

Average FUM grew by $7.3 billion or 4.9% primarily as a result of positive market performance.

Net funds flow fell by $3.0 billion compared to the March 2014 half year, primarily due to the loss of a wholesale client.

Insurance planned profit margins and experience profit/(loss)

Planned profit margins were in line with the prior half and not achieved primarily due to increased insurance reserves, partly offset by improved claims experience.

Inforce premiums as at 30 September 2014 of $1.7 billion grew by $18 million or 1.1% when compared to March 2014.

NAB Wealth

Funds Under Management

Movement in Funds under Management and Administration ($m)	As at Sep 13	Inflows	Outflows	Investment earnings	Other [(1)]	As at Sep 14
Retail [(2)]	98,748	15,854	(15,322)	7,371	(886)	**105,765**
Wholesale	46,356	10,675	(9,091)	4,586	(239)	**52,287**
Total NAB Wealth ex Trustee and Cash Management	145,104	26,529	(24,413)	11,957	(1,125)	**158,052**
Movement in Funds under Management and Administration ($m)	**As at Mar 14**	**Inflows**	**Outflows**	**Investment earnings**	**Other [(1)]**	**As at Sep 14**
Retail [(2)]	103,209	8,241	(8,498)	3,351	(538)	**105,765**
Wholesale	50,562	5,549	(5,731)	1,985	(78)	**52,287**
Total NAB Wealth ex Trustee and Cash Management	153,771	13,790	(14,229)	5,336	(616)	**158,052**

(1) *Other includes trust distributions.*

(2) *Includes corporate superannuation.*

FUM by Asset Class	As at Sep 14	Mar 14	Sep 13
Australian equities	**32%**	33%	32%
International equities	**25%**	24%	23%
Australian fixed interest	**18%**	17%	17%
International fixed interest	**8%**	8%	8%
Australian cash	**12%**	12%	12%
International direct property	**-**	-	4%
International listed property	**3%**	4%	2%
Australian listed property	**2%**	2%	2%

	Funds under Management					
	Jun 14		Dec 13		Jun 13	
	Rank	Market Share %	Rank	Market Share %	Rank	Market Share %
Retail (excl. Cash)	**2**	**15.0**	2	15.1	2	15.2
Total Retail Superannuation	**2**	**19.5**	2	19.5	2	19.5
Total Wholesale	**4**	**5.7**	5	5.2	5	5.5

Source: Plan for Life Australian Retail & Wholesale Investments Market Share and Dynamics Report - June 2014. (Prior periods include re-statements of funds under management made by Plan for Life.)

	Premiums in Force					
	Jun 14		Dec 13		Jun 13	
	Rank	Market Share %	Rank	Market Share %	Rank	Market Share %
Retail insurance	**2**	**15.6**	2	15.8	2	16.4
Group insurance	**5**	**9.0**	5	9.8	5	9.2

	Share of New Business					
	Jun 14		Dec 13		Jun 13	
	Rank	Market Share %	Rank	Market Share %	Rank	Market Share %
Retail insurance	**2**	**14.7**	2	14.6	3	14.1
Group insurance	**4**	**10.9**	3	14.9	4	13.2

Source: DEXX&R Life Analysis - June 2014. (Prior periods include re-statements of premiums inforce and share of new business made by DEXX&R).

NZ Banking

Anthony Healy

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

Results presented in local currency. See page 60 for results in $AUDm and page 115 for foreign exchange rates.

	Year to			Half Year to		
	Sep 14 NZ$m	**Sep 13 NZ$m**	**Sep 14 v Sep 13 %**	**Sep 14 NZ$m**	**Mar 14 NZ$m**	**Sep 14 v Mar 14 %**
Net interest income	**1,511**	1,466	3.1	**765**	746	2.5
Other operating income	**492**	499	(1.4)	**244**	248	(1.6)
Net operating income	**2,003**	1,965	1.9	**1,009**	994	1.5
Operating expenses	**(806)**	(791)	(1.9)	**(406)**	(400)	(1.5)
Underlying profit	**1,197**	1,174	2.0	**603**	594	1.5
Charge to provide for bad and doubtful debts	**(87)**	(99)	12.1	**(46)**	(41)	(12.2)
Cash earnings before tax	**1,110**	1,075	3.3	**557**	553	0.7
Income tax expense	**(303)**	(287)	(5.6)	**(150)**	(153)	2.0
Cash earnings	**807**	**788**	**2.4**	**407**	**400**	**1.8**
Average Volumes (NZ$bn)						
Gross loans and acceptances	**63.0**	60.6	4.0	**63.5**	62.5	1.6
Interest earning assets	**64.6**	62.0	4.2	**65.2**	64.1	1.7
Total assets	**64.9**	62.0	4.7	**65.9**	63.9	3.1
Customer deposits	**42.6**	38.5	10.6	**43.4**	41.7	4.1
Capital (NZ$bn)						
Risk-weighted assets - credit risk (spot)	**41.7**	41.1	1.5	**41.7**	41.5	0.5
Total risk-weighted assets (spot)	**46.4**	45.0	3.1	**46.4**	45.8	1.3
Performance Measures						
Cash earnings on average assets	**1.24%**	1.27%	(3 bps)	**1.23%**	1.26%	(3 bps)
Cash earnings on average risk-weighted assets	**1.77%**	1.86%	(9 bps)	**1.76%**	1.77%	(1 bps)
Net interest margin	**2.34%**	2.36%	(2 bps)	**2.34%**	2.34%	-
Cost to income ratio	**40.2%**	40.3%	10 bps	**40.2%**	40.2%	-
'Jaws'	**-**	0.8%	(80 bps)	**-**	-	-
Cash earnings per average FTE (NZ$'000s)	**171**	171	-	**171**	171	-
FTEs (spot)	**4,718**	4,671	(1.0)	**4,718**	4,719	-

	As at		
Market Share (1)	**Aug 14**	**Mar 14**	**Sep 13**
Housing lending	**15.9%**	15.8%	16.0%
Cards	**24.1%**	25.5%	25.8%
Agribusiness	**22.3%**	22.2%	22.1%
Business Lending	**26.6%**	26.8%	26.8%
Retail deposits (2)	**18.8%**	19.0%	19.4%

(1) *Source RBNZ: August 2014 (historical market share rebased with latest revised RBNZ published data).*

(2) *Retail deposits include business and personal deposits and exclude wholesale deposits.*

	As at		
Distribution	**Sep 14**	**Mar 14**	**Sep 13**
Number of retail branches	**177**	178	178
Number of ATMs	**470**	472	470
Number of internet banking customers ('000s)	**647**	631	607

NZ Banking

Financial Analysis (in local currency)

September 2014 v September 2013

Cash earnings increased by NZ$19 million or 2.4% against the September 2013 full year driven by improved revenue and reduced charges for bad and doubtful debts, partially offset by higher operating expenses.

Cash earnings on average risk-weighted assets decreased by nine basis points to 1.77%. This was due to an increase in average risk-weighted assets resulting from RBNZ regulatory changes and internal modelling changes.

Net interest income increased by NZ$45 million or 3.1% driven by growth in lending volumes in both business and housing sectors, partially offset by a small decrease in the net interest margin.

Average volumes of **gross loans and acceptances** increased by NZ$2.4 billion or 4.0%. The business lending portfolio experienced steady growth, with market share in the key Agribusiness sector growing by 20 basis points to 22.3% [(1)]. Housing average volumes grew by NZ$1.0 billion or 3.5%. Growth was subdued due to the impact of RBNZ loan-to-value ratio limits which came into effect October 2013, and increased market competition.

Average customer deposits grew strongly on prior year, increasing by NZ$4.1 billion or 10.6%. Customer deposits grew faster than lending, supporting balance sheet strength.

Net interest margin decreased by two basis points to 2.34% driven by customers' preference for lower margin fixed rate mortgage lending as a result of Official Cash Rate increases during the year and increased competition for mortgage customers. This was partly offset by reduced funding costs.

Other operating income decreased by NZ$7 million or 1.4%. This was mainly driven by lower lending and commitment fees in Corporate & Institutional Banking.

Operating expenses increased by NZ$15 million or 1.9%, primarily driven by amortisation costs on completed strategic investment projects as well as costs associated with transformational projects including NextGen.

The **charge to provide for bad and doubtful debts** improved by NZ$12 million or 12.1% due to the favourable credit risk environment.

[(1)] *Source RBNZ: August 2014.*

September 2014 v March 2014

Cash earnings increased by NZ$7 million or 1.8% against the March 2014 half year as a result of increased revenue, partially offset by higher operating expenses and charges for bad and doubtful debts.

Cash earnings on average risk-weighted assets decreased by one basis point to 1.76% on the March 2014 half year, primarily due to higher average risk-weighted assets.

Net interest income increased by NZ$19 million or 2.5% driven by growth in business lending and housing volumes. Net interest margin was flat with reduced asset margins offset by lower funding costs.

Average volumes of **gross loans and acceptances** grew by NZ$1.0 billion or 1.6%. The growth was across business and housing lending, as continued positive economic conditions encouraged investment. BNZ's housing market share increased by 10 basis points to 15.9% [(1)] as a result of strategic focus on this market, with average housing volumes growing by NZ$0.6 billion or 2% in the September 2014 half year.

Average customer deposits grew by NZ$1.7 billion or 4.1% over the March 2014 half year. Customer deposit growth slowed, in the half, reflecting an increased focus on higher quality personal deposits.

Net interest margin remained flat at 2.34% largely driven by lower wholesale funding and customer deposit costs, offset by a decline in asset margins from accelerated switching to lower margin fixed rate mortgage products. Increased competitive pressures were also a factor.

Other operating income decreased by NZ$4 million or 1.6% as a result of competitive pressure on fees.

Operating expenses increased by NZ$6 million or 1.5% compared to the prior half year, primarily due to strategic investments, including NextGen.

The **charge to provide for bad and doubtful debts** increased by $5 million or 12.2% due to increased specific provisions in the September 2014 half year.

Other Items

Asset Quality

	As at		
	Sep 14	**Mar 14**	**Sep 13**
Specific provision for doubtful debts (NZ$m)	**116**	119	114
Collective provision for doubtful debts (NZ$m)	**128**	158	167
Specific provision on loans at fair value (NZ$m)	**4**	14	35
Collective provision on loans at fair value (NZ$m)	**150**	121	117
90+DPD assets (NZ$m)	**208**	252	273
Gross impaired assets (NZ$m)	**280**	398	405
90+DPD to gross loans and acceptances	**0.32%**	0.40%	0.44%
Gross impaired assets to gross loans and acceptances	**0.44%**	0.64%	0.65%
90+DPD plus gross impaired asset to gross loans and acceptances	**0.76%**	1.04%	1.09%
Specific provision to gross impaired assets	**42.9%**	33.4%	36.8%
Net write-offs to gross loans and acceptances (annualised) (1) (2)	**0.23%**	0.23%	0.25%
Total provision as a percentage of net write-offs (annualised) (1) (2)	**265%**	278%	276%
Total provision to gross loans and acceptances	**0.62%**	0.66%	0.70%
Bad and doubtful debt charge to gross loans and acceptances (annualised) (2)	**0.14%**	0.13%	0.16%

(1) *Net write-offs restated to include net write-offs of fair value loans.*

(2) *September 2013 and 2014 metrics refer to the full year ratio, the March 2014 metrics refer to the March half year ratio annualised.*

Asset quality has improved during the September 2014 half year, with impaired assets as a percentage of gross loans and acceptances falling by 20 basis points and 90+DPD as a percentage of gross loans and acceptances decreasing by eight basis points. Impaired assets decreased due to the upgrade of a number of corporate customers. 90+DPD assets decreased due to a combination of reduced delinquency, particularly in the mortgage portfolio, and some downgrades into impaired assets.

The mortgage portfolio improved during the September half year with rolling 12 month write-offs falling from four basis points to three basis points, and 90+DPD assets decreasing from 18 basis points to 11 basis points. This reflects the continued strong housing credit environment and good collection processes in Retail Banking.

Net write-offs for the September 2014 year were comparable to the September 2013 year, with a number of aged provisions written off. Retail write-offs have continued to fall.

Over the September 2014 year, the cover of total provisions to gross loans and acceptances fell by eight basis points to 0.62% with specific provisions decreasing as impaired assets fell.

Capital and Funding Position

BNZ maintains a robust capital structure, with a strong balance sheet that is well funded through diversified stable funding sources.

BNZ's Core Funding Ratio (CFR) exceeded the RBNZ minimum requirement of 75% as at 30 September 2014. BNZ's Common Equity Tier 1, Tier 1 and Total capital ratios of 9.36%, 10.63% and 12.03% respectively as at 30 September 2014 were well above the RBNZ minimum capital requirements of 7.00%, 8.50% and 10.50% respectively.

Over the past three years, BNZ has been pursuing a strategy of growing customer deposits and reducing its reliance on wholesale funding, particularly short-term wholesale borrowings. The success of this strategy has resulted in a stable funding mix that supports sustainable balance sheet footings.

In February 2014, BNZ established a U.S. Rule 144A capability under the Global Medium Note Programme, enabling BNZ to raise term funding in the U.S. market and further broadening BNZ's wholesale term funding capacity. BNZ completed a successful inaugural US$750 million five year medium term note issuance in March 2014 under this programme, which was further upsized by US$250 million in September 2014. In the 2014 financial year, BNZ also completed term debt issuance in the Swiss, Japanese and domestic market, demonstrating BNZ's commitment to maintaining a diversified funding base.

Collectively, BNZ's funding and capital position is supportive of it's long-term credit rating of AA-/AA3/AA- (S&P/Moody's/Fitch).

NZ Banking

Results presented in Australian dollars. *See page 57 for results in local currency.*

	Year to			Half Year to		
	Sep 14 $m	Sep 13 $m	Sep 14 v Sep 13%	Sep 14 $m	Mar 14 $m	Sep 14 v Mar 14%
Net interest income	1,382	1,207	14.5	701	681	2.9
Other operating income	449	411	9.2	224	225	(0.4)
Net operating income	1,831	1,618	13.2	925	906	2.1
Operating expenses	(737)	(651)	(13.2)	(373)	(364)	(2.5)
Underlying profit	1,094	967	13.1	552	542	1.8
Charge to provide for bad and doubtful debts	(80)	(81)	1.2	(42)	(38)	(10.5)
Cash earnings before tax	1,014	886	14.4	510	504	1.2
Income tax expense	(276)	(237)	(16.5)	(137)	(139)	1.4
Cash earnings	738	649	13.7	373	365	2.2

Impact of foreign exchange rate movements

Favourable/ (unfavourable) September 14	Year since Sep 13 $m	Sep 14 v Sep 13 Ex FX %	Half year since Mar 14 $m	Sep 14 v Mar 14 Ex FX %
Net interest income	138	3.1	4	2.3
Other operating income	45	(1.7)	1	(0.9)
Operating expenses	(73)	(2.0)	(2)	(1.9)
Charge to provide for bad and doubtful debts	(8)	11.1	-	(10.5)
Income tax expense	(28)	(4.6)	(1)	2.2
Cash earnings	74	2.3	2	1.6

UK Banking

David Thorburn

UK Banking operates under the Clydesdale Bank and Yorkshire Bank brands, offering a range of banking services for both personal and business customers. These services are delivered through a network of retail branches, business and private banking centres, direct banking and broker channels.

Results presented in local currency. See page 64 for results in Australian dollars and page 115 for foreign exchange rates.

	Year to			Half Year to		
	Sep 14 £m	Sep 13 (1) £m	Sep 14 v Sep 13 %	Sep 14 £m	Mar 14 £m	Sep 14 v Mar 14 %
Net interest income	**759**	751	1.1	**379**	380	(0.3)
Other operating income	**210**	235	(10.6)	**105**	105	-
Net operating income	**969**	986	(1.7)	**484**	485	(0.2)
Operating expenses	**(686)**	(721)	4.9	**(345)**	(341)	(1.2)
Underlying profit	**283**	265	6.8	**139**	144	(3.5)
Charge to provide for bad and doubtful debts	**(80)**	(158)	49.4	**(25)**	(55)	54.5
Cash earnings before tax	**203**	107	89.7	**114**	89	28.1
Income tax expense	**(45)**	(27)	(66.7)	**(29)**	(16)	(81.3)
Cash earnings (2)	**158**	**80**	**97.5**	**85**	**73**	**16.4**
Average Volumes (£bn)						
Gross loans and acceptances	**26.8**	27.1	(1.1)	**27.1**	26.7	1.5
Interest earning assets	**34.2**	35.4	(3.4)	**34.6**	33.9	2.1
Total assets	**37.1**	38.1	(2.6)	**37.8**	36.3	4.1
Customer deposits	**23.4**	24.6	(4.9)	**23.7**	23.3	1.7
Capital (£bn)						
Risk-weighted assets - credit risk (spot)	**18.7**	19.8	(5.6)	**18.7**	19.2	(2.6)
Total risk-weighted assets (spot)	**23.5**	24.5	(4.1)	**23.5**	24.1	(2.5)
Performance Measures						
Cash earnings on average assets	**0.43%**	0.21%	22 bps	**0.45%**	0.40%	5 bps
Cash earnings on average risk-weighted assets	**0.66%**	0.31%	35 bps	**0.71%**	0.60%	11 bps
Net interest margin	**2.22%**	2.12%	10 bps	**2.18%**	2.25%	(7 bps)
Cost to income ratio	**70.8%**	73.1%	230 bps	**71.3%**	70.3%	(100 bps)
'Jaws'	**3.2%**	(5.1%)	830 bps	**(1.4%)**	4.6%	(600 bps)
Cash earnings per average FTE (£'000s)	**22**	11	100.0	**23**	21	9.5
FTEs (spot)	**7,278**	7,013	(3.8)	**7,278**	7,103	(2.5)

(1) Restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.

(2) Conduct charges relating to payment protection insurance and interest rate hedging products have been included within Corporate Functions and Other division results.

	As at		
Distribution	**Sep 14**	**Mar 14**	**Sep 13**
Number of retail branches	**296**	322	323
Number of ATMs	**859**	859	838
Number of internet banking customers (no. '000s)	**722**	701	657

UK Banking

Financial Analysis (in local currency)

September 2014 v September 2013

Cash earnings increased by £78 million to £158 million when compared to the September 2013 year, primarily due to reduced expenses and lower bad and doubtful debt charges.

Cash earnings on average risk weighted assets increased by 35 basis points to 0.66%. This reflects an improvement in cash earnings, coupled with a reduction in credit risk weighted assets.

Net interest income increased by £8 million or 1.1%. This was driven by higher income from housing lending and lower term deposit costs. These were partially offset by lower business lending income as a result of portfolio attrition, and lower returns on non-interest bearing deposits and capital.

The **net interest margin** increased by 10 basis points, due to an improved retail deposit mix and a reduction in low yielding liquid assets. These effects were partially offset by lower lending margins and a decline in the earnings rate on non-interest bearing deposits and capital.

Average gross loans and acceptances decreased by £0.3 billion or 1.1%. Business lending balances continued to decline, falling by £1.7 billion or 16.7% during the year. This was largely driven by the subdued demand for credit, risk appetite settings and the impact of business restructuring. The result was partially offset by housing lending growth of £1.5 billion, or 9.6%, which was significantly higher than system growth of 1.0% in the period [(1)].

Average customer deposits decreased by £1.2 billion or 4.9%. This reflected the managed rebalancing of the retail deposit book, with a reduction in higher cost term deposits and was partially offset by growth in current and savings accounts.

Other operating income decreased by £25 million or 10.6%. Fees and commissions were lower as a result of subdued business credit growth and the strategy to reduce account fees to improve customer outcomes and competitive positioning.

Operating expenses decreased by £35 million or 4.9%. Costs associated with legacy conduct issues [(2)] continue to have an impact on expenses, with £13 million of additional provisions raised in the year, which represented a decline of £37 million compared to the prior year. Excluding this, underlying operating expenses were broadly flat in the year. Personnel costs were lower due to a reduction in average FTEs, with occupancy costs also lower following property rationalisation. These effects were partially offset by an increase in marketing costs to support customer acquisition and an increase in project related investment activity.

The **charge to provide for bad and doubtful debts** decreased by £78 million or 49.4%. This was primarily due to a reduction in business lending losses as a result of asset quality improvements aligned to a more stable UK economy.

September 2014 v March 2014

Cash earnings increased by £12 million to £85 million when compared to the March 2014 half year, mainly due to lower bad and doubtful debt charges.

Cash earnings on average risk weighted assets increased by 11 basis points to 0.71%. This reflects an improvement in cash earnings, coupled with a reduction in credit risk weighted assets.

Net interest income decreased by £1 million or 0.3%. This was driven by lower business lending income and the cost of the Financial Services Compensation Scheme (FSCS) levy of £13 million, which is now incurred in the second half of each financial year. This was partially offset by higher housing lending income and lower deposit costs.

The **net interest margin** decreased by 7 basis points. This was driven by the impact of the timing of the FSCS levy and lower lending margins as a result of competitive pressures. This effect was partially offset by an improved retail deposit mix.

Average gross loans and acceptances increased by £0.4 billion or 1.5%. Housing lending growth of £1.1 billion, or 6.6%, was materially higher than system growth of 0.7% in the period [(1)]. This was offset by a reduction in business lending balances of £0.8 billion or 9.0%, due to the subdued demand for credit, risk appetite settings and competitive pressures.

Average customer deposits increased by £0.4 billion or 1.7%. This reflected an improved deposit mix, with growth in current and savings accounts partially offset by a reduction in higher cost term deposits.

Other operating income was flat. Fees and commissions were lower due to a reduction in account fees to improve customer outcomes and competitive positioning. This was offset by a gain of £7 million arising from a property sale and leaseback transaction in the period.

Operating expenses increased by £4 million or 1.2%. Underlying operating expenses increased by £17 million or 5.2%. Personnel costs were higher due to an increase in FTEs principally to support conduct related activities. Marketing costs were higher due to the timing of digital advertising campaigns. This was partially offset by decreased costs associated with legacy conduct related matters [(2)] of £13 million compared to the prior half year.

The **charge to provide for bad and doubtful debts** decreased by £30 million or 54.5%. This was primarily driven by a reduction in business lending losses as a result of improving economic conditions, and a reduction in the size of the portfolio. Housing lending losses remained broadly stable despite continued growth in the portfolio.

(1) *Source: Bank of England – August 2014.*

(2) *Conduct charges relating to payment protection insurance and interest rate hedging products have been included within Corporate Functions and Other division results.*

Other Items

Asset Quality

	As at		
	Sep 14	Mar 14	Sep 13 (1)
Specific provision for doubtful debts (£m)	111	134	133
Collective provision for doubtful debts (£m)	134	145	155
Specific provision on loans at fair value (£m)	30	29	23
Collective provision on loans at fair value (£m)	44	49	54
90+DPD assets (£m) (2)	182	213	157
Gross impaired assets (£m)	375	410	423
90+DPD to gross loans and acceptances (2)	0.66%	0.80%	0.59%
Gross impaired assets to gross loans and acceptances	1.35%	1.53%	1.60%
90+DPD plus gross impaired assets to gross loans and acceptances (2)	2.01%	2.33%	2.19%
Specific provision to gross impaired assets	37.6%	39.8%	36.9%
Net write-offs to gross loans and acceptances (annualised) (1) (3)	0.43%	0.45%	0.64%
Total provision as a percentage of net write-offs (annualised) (1) (3)	268%	292%	217%
Total provision to gross loans and acceptances	1.15%	1.33%	1.38%
Bad and doubtful debt charge to gross loans and acceptances (annualised) (3)	0.29%	0.41%	0.60%

(1) *Net write-offs restated to include net write-offs of fair value loans.*

(2) *From March 2014 this balance includes UK mortgage defaulted customers not previously disclosed as past due, where the contractual repayment date has passed but customers continue to pay interest due, or where an agreed arrangement is in place, or where the customer is deceased. The current year disclosure reflects changes in Group and regulatory practices. Prior period comparatives have not been restated. For information, the comparative period 90+ DPD balance September 2013 would have been £222 million, with the ratio of 90+DPD to gross loans and acceptances ratio calculated at 0.84% and 90+DPD plus gross impaired assets to loans and acceptances ratio calculated at 2.44%.*

(3) *September 2013 and 2014 metrics refer to the Full Year ratio, the March 2014 metrics refer to the March half year ratio annualised.*

The UK economy is showing signs of steady improvement, having experienced seven consecutive quarters of output growth.

Retail asset quality continues to improve with lower default rates observed across all unsecured lending. Housing lending impaired loan levels have remained subdued against a growing portfolio due to the prolonged period of low interest rates and recovery in residential property prices. The underlying level of housing loan 90+DPD shows a steady reduction, with continued improvements in the unsecured portfolios.

While the non-retail portfolio remains sensitive to economic conditions, the recent improvement in the environment, combined with management actions, has had a positive impact on key asset quality metrics. However, despite the growth in market confidence and the decline in gross impaired assets as at September 2014, the level of non-retail impaired assets remains elevated.

The overall collective provision for bad and doubtful debts continues to decrease, reflecting the reduction in the business lending portfolio and stabilisation in non-retail asset quality. The personal lending collective provision continues to contract, driven by the improved delinquency profile of these portfolios.

Net write-offs to gross loans and acceptances fell by 2 basis points to 0.43% over the September 2014 half year, due to lower levels of write-offs from both the non-retail and retail portfolios.

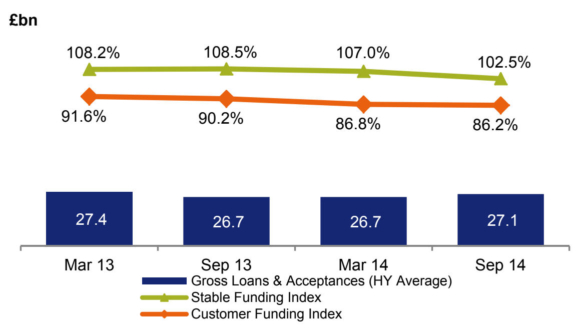
The ratio of total provisions to gross loans and acceptances decreased by 18 basis points, to 1.15%, in the six months to September 2014. The reduction reflects the lower risk nature of the portfolio mix, with growth in the mortgage portfolio, which has a lower provisioning requirement.

Capital and funding position

The Clydesdale Bank plc Common Equity Tier 1 (CET1) ratio increased from 10.53% in September 2013 to 12.21% in September 2014. In December 2013, Clydesdale Bank plc refinanced £300 million of Tier 1 capital from the NAB Group that was not compliant with Basel III requirements for loss absorbency, with ordinary equity from its immediate parent, National Australia Group Europe (NAGE). NAGE issued Basel III compliant additional Tier 1 securities to NAB to fund its investment. Furthermore, Clydesdale Bank plc issued an additional £300 million of ordinary shares to the NAB Group via NAGE in March 2014, in part to respond to the changing regulatory environment.

Clydesdale Bank plc continues to raise term funding through covered bond and securitisation program with £600 million raised in March 2014. Its funding profile remains diversified in terms of the types of instrument and product, currency, counterparty, term structure and market, available through such programmes.

Stable Funding and Customer Funding Indices



Clydesdale Bank plc's customer deposits have been managed during the year to achieve an efficient customer balance sheet position. The Customer Funding Index (CFI) fell from 90.2% in September 2013 to 86.2% at September 2014 and the Stable Funding Index (SFI) fell from 108.5% to 102.5% in the same period.

Clydesdale Bank plc continues to hold £100 million of floating rate notes issued by the European Investment Bank and has no direct exposure to any Eurozone Sovereigns.

UK Banking

Results presented in Australian dollars. See page 61 for results in local currency.

	Year to			Half Year to		
	Sep 14 $m	**Sep 13 [(1)] $m**	**Sep 14 v Sep 13 [(1)] %**	**Sep 14 $m**	**Mar 14 $m**	**Sep 14 v Mar 14 %**
Net interest income	**1,367**	1,177	16.1	**685**	682	0.4
Other operating income	**376**	368	2.2	**188**	188	-
Net operating income	**1,743**	1,545	12.8	**873**	870	0.3
Operating expenses	**(1,233)**	(1,130)	(9.1)	**(622)**	(611)	(1.8)
Underlying profit	**510**	415	22.9	**251**	259	(3.1)
Charge to provide for bad and doubtful debts	**(145)**	(247)	41.3	**(45)**	(100)	55.0
Cash earnings before tax	**365**	168	large	**206**	159	29.6
Income tax expense	**(81)**	(44)	(84.1)	**(53)**	(28)	(89.3)
Cash earnings [(2)]	**284**	**124**	**large**	**153**	**131**	**16.8**

(1) Restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.

(2) Conduct charges relating to payment protection insurance and interest rate hedging products have been included within Corporate Functions and Other division results.

Impact of foreign exchange rate movements

Favourable/ (unfavourable) September 14	**Year since Sep 13 [(1)] $m**	**Sep 14 v Sep 13 [(1)] Ex FX %**	**Half year since Mar 14 $m**	**Sep 14 v Mar 14 Ex FX %**
Net interest income	**177**	1.1	**4**	(0.1)
Other operating income	**48**	(10.9)	**1**	(0.5)
Operating expenses	**(159)**	5.0	**(3)**	(1.3)
Charge to provide for bad and doubtful debts	**(19)**	49.0	**(1)**	56.0
Income tax expense	**(10)**	(61.4)	**-**	(89.3)
Cash earnings	**37**	99.2	**1**	16.0

NAB UK Commercial Real Estate

David Gall

The NAB UK Commercial Real Estate Group (NAB UK CRE) portfolio business was created on 5 October 2012 with the transfer of £5.6 billion of commercial real estate loan assets from Clydesdale Bank plc to National Australia Bank Limited, managed via its London Branch. Approximately 4,600 customers were transferred from a position being managed across 70+ locations to being managed across three locations (London, Glasgow and Leeds). A team of around 180 dedicated loan specialists are responsible for the orderly wind-down of the portfolio, and for meeting both bank and customer obligations, including the requirement for fair treatment of customers.

Results presented in local currency. See page 115 for foreign exchange rates.

	Year to			Half Year to		
	Sep 14 £m	**Sep 13 £m**	**Sep 14 v Sep 13 %**	**Sep 14 £m**	**Mar 14 £m**	**Sep 14 v Mar 14 %**
Net interest income	**20**	39	(48.7)	**7**	13	(46.2)
Other operating income	**18**	(11)	large	**17**	1	large
Net operating income	**38**	28	35.7	**24**	14	71.4
Operating expenses	**(32)**	(36)	11.1	**(14)**	(18)	22.2
Underlying profit/(loss)	**6**	(8)	large	**10**	(4)	large
(Charge to provide for)/write-back of bad and doubtful debts	**24**	(304)	large	**29**	(5)	large
Cash earnings/(deficit) before tax	**30**	(312)	large	**39**	(9)	large
Income tax (expense)/benefit	**(7)**	73	large	**(9)**	2	large
Cash earnings/(deficit)	**23**	**(239)**	**large**	**30**	**(7)**	**large**
Average Volumes (£bn)						
Gross loans and acceptances	**3.2**	4.9	(34.7)	**2.8**	3.6	(22.2)
Interest earning assets	**3.4**	5.0	(32.0)	**2.9**	3.8	(23.7)
Spot Volumes (£bn)						
Gross loans and acceptances	**2.2**	4.0	(45.9)	**2.2**	3.3	(34.5)
Interest earning assets	**2.3**	4.2	(45.2)	**2.3**	3.5	(34.3)
Capital (£bn)						
Risk-weighted assets - credit risk (spot)	**2.7**	3.8	(28.9)	**2.7**	2.9	(6.9)

Results presented in Australian dollars.

	Year to			Half Year to		
	Sep 14 $m	**Sep 13 $m**	**Sep 14 v Sep 13 %**	**Sep 14 $m**	**Mar 14 $m**	**Sep 14 v Mar 14 %**
Net interest income	**37**	61	(39.3)	**15**	22	(31.8)
Other operating income	**31**	(17)	large	**28**	3	large
Net operating income	**68**	44	54.5	**43**	25	72.0
Operating expenses	**(57)**	(56)	(1.8)	**(25)**	(32)	21.9
Underlying profit/(loss)	**11**	(12)	large	**18**	(7)	large
(Charge to provide for)/write-back of bad and doubtful debts	**43**	(477)	large	**51**	(8)	large
Cash earnings/(deficit) before tax	**54**	(489)	large	**69**	(15)	large
Income tax (expense)/benefit	**(12)**	114	large	**(15)**	3	large
Cash earnings/(deficit)	**42**	**(375)**	**large**	**54**	**(12)**	**large**

NAB UK Commercial Real Estate

Financial Analysis (in local currency)

September 2014 v September 2013

Cash earnings of £23 million increased by £262 million compared to the September 2013 full year. This increase was primarily driven by a lower bad and doubtful debt charge.

Net operating income of £38 million increased by £10 million or 35.7%. This increase was driven by an improvement in other operating income due to a small gain on the sale of loans in the September 2014 half.

Operating expenses of £32 million decreased by £4 million or 11.1% largely due to reduced operational costs as the portfolio contracts.

The **release against bad and doubtful debts** of £24 million compares to a £304 million charge in the September 2013 year. This reduction reflects the improvement in the economic environment in the UK and the stabilisation of the commercial real estate sector, coupled with recoveries against previously provided for debt. Included within the full year result to September 2014 is a £55 million release of the NAB UK CRE overlay.

The **interest earning assets spot** balance was £2.3 billion at 30 September 2014, a net reduction of £1.9 billion. The spot gross loans and acceptances balance of £2.2 billion is a net reduction of £1.8 billion over the period, £0.6 billion of which is attributable to a sale of loans in the year to 30 September 2014. Net of provisions for bad and doubtful debts, spot gross loans and acceptances stand at £1.9 billion.

Risk-weighted assets of £2.7 billion have fallen by £1.1 billion during the period. This is primarily due to the reduction in the balance sheet.

September 2014 v March 2014

Cash earnings increased to £30 million when compared to the March 2014 half year deficit of £7 million. This increase was primarily due to a gain on the sale of loans and releases from bad and doubtful debts during the September 2014 half year.

Net operating income increased by £10 million or 71.4% compared to the March 2014 half year, which was primarily due to a gain on the sale of loans during the September 2014 half year. This increase was partially offset by lower net interest income which was mainly the result of a 22.2% reduction in average gross loans and acceptances.

Operating expenses decreased by £4 million or 22.2%, largely due to reduced operational costs as the portfolio reduces.

The **release from bad and doubtful debts** of £29 million compares to a £5 million charge in the March 2014 half year. This reduction reflects the continued improvement in the UK economic environment and the stabilisation of the commercial real estate sector.

The **interest earning assets spot** balance is £1.2 billion lower at 30 September 2014 at £2.3 billion, with spot gross loans and acceptances £1.1 billion lower at £2.2 billion. Reduction in the portfolio is attributable to a £0.6 billion sale of loans and £0.5 billion of repayments. This is in line with the strategic aim of reducing the risk and exiting the NAB UK CRE portfolio.

Risk-weighted assets have fallen by £0.2 billion in the half to 30 September 2014. This was primarily due to the net reduction in the balance sheet, from the sale of loans pending settlement.

Other Items

Asset Quality

	As at		
	Sep 14	**Mar 14**	**Sep 13**
Specific provision for doubtful debts (£m)	**186**	332	328
Collective provision for doubtful debts (£m)	**73**	122	148
Specific provision on loans at fair value (£m)	**20**	59	69
Collective provision on loans and derivatives at fair value (£m)	**40**	45	49
90+DPD assets (£m)	**60**	142	127
Gross impaired assets (£m)	**500**	964	979
90+DPD to gross loans and acceptances	**2.77%**	4.26%	3.17%
Gross impaired assets to gross loans and acceptances	**23.1%**	29.0%	24.4%
90+DPD plus gross impaired assets to gross loans and acceptances	**25.9%**	33.2%	27.6%
Specific provision to gross impaired assets	**41.2%**	40.6%	40.6%
Net write-offs to gross loans and acceptances (annualised) (1) (2)	**5.64%**	4.85%	5.78%
Total provision as a percentage of net write-offs (annualised) (1) (2)	**261%**	344%	256%
Total provision to gross loans and acceptances	**14.7%**	16.8%	14.8%
Bad and doubtful debt charge/ (write-back) to gross loans and acceptances (annualised) (2)	**(1.11%)**	0.30%	7.58%

(1) *Net write-offs restated to include net write-offs of fair value loans.*

(2) *September 2013 and 2014 metrics refer to the full year ratio, the March 2014 metric refer to the March half year ratio annualised.*

The UK economy is showing signs of steady improvement, having experienced seven consecutive quarters of output growth. The commercial real estate sector has also shown signs of improvement. The risk to asset quality remains, given the geographical concentration and quality of property secured against the NAB UK CRE portfolio.

In the September 2014 half year there has been a significant decrease in the nominal levels of total gross impaired and 90+DPD assets, which have fallen by £546 million, or 49.3%. This was mainly due to the sale of £0.6 billion worth of largely non-performing assets. Total provisions have reduced by £239 million, or 42.8%, which was also mainly due to the sale of assets in the half year to 30 September 2014.

Corporate Functions and Other [1]

The Group's 'Corporate Functions' business includes functions that support all businesses including Group Funding, Other Corporate Functions activities and the results of Specialised Group Assets (SGA) and Great Western Bank (GWB). Group Funding acts as the central vehicle for movements of capital and structural funding to support the Group's operations, together with capital and balance sheet management. Other Corporate Functions activities include Enterprise Services and Transformation, Australian Investment Committee and Support Units (which include Office of the CEO, Risk, Finance and Strategy and People, Communications and Governance).

	Year to			Half Year to		
	Sep 14 $m	Sep 13 [2] $m	Sep 14 v Sep 13 %	Sep 14 $m	Mar 14 $m	Sep 14 v Mar 14 %
Net operating income	973	990	(1.7)	453	520	(12.9)
Operating expenses	(1,995)	(645)	large	(1,642)	(353)	large
Underlying profit/(loss)	(1,022)	345	large	(1,189)	167	large
(Charge to provide for)/write-back of bad and doubtful debts	46	(15)	large	53	(7)	large
Cash earnings before tax	(976)	330	large	(1,136)	160	large
Income tax benefit/(expense)	(36)	(57)	36.8	16	(52)	large
Cash earnings/(deficit)	(1,012)	273	large	(1,120)	108	large

(1) *Operating expenses for Enterprise Services and Transformation, Australian Investment Committee and Support Units are now largely attributed to Australian Banking and NAB Wealth. Prior period results for Corporate Functions have been restated to reflect these changes.*

(2) *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes and for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

September 2014 v September 2013

Cash earnings decreased by $1,285 million against September 2013 primarily due to higher UK conduct charges and write-downs to the carrying value of software assets and several other tax related items. Excluding the impact of foreign exchange and these specified items (detailed on page 20), cash earnings decreased by $14 million to $465 million. This decrease was driven by lower income, partially offset by lower operating expenses and lower bad and doubtful debts.

Net operating income decreased by $17 million or 1.7%. Excluding the impact of foreign exchange, net operating income decreased by $70 million due to lower income on the SGA portfolio as a result of its continued run-down and lower earnings on capital, as interest rates declined, partially offset by gains relating to Group Funding activities and the sale of available for sale investments.

Operating expenses increased by $1,350 million. Excluding the impact of specified items (detailed on page 20) and foreign exchange, operating expenses decreased by $82 million mainly due to restructuring costs relating to the organisational realignment in Australia and other UK conduct related charges included in September 2013 not repeated in September 2014. This was partially offset by a GST recovery and the reversal of prior year accruals for performance based incentives in the September 2013 year not repeated, combined with increased costs associated with the Group's strategic initiatives.

The **charge to provide for bad and doubtful debts** decreased by $61 million primarily due to the release of the economic cycle adjustment in the current period.

Income tax expense decreased by $21 million. Excluding the impact of specified items (detailed on page 20) and foreign exchange, income tax expense increased by $86 million, mainly due to the reduced benefit of concessional taxation treatment of offshore funding activities and R&D tax credits included in the prior year.

September 2014 v March 2014

Cash earnings decreased by $1,228 million against March 2014 mainly as a result of UK conduct charges and write-downs to the carrying value of software assets and several other tax related items. Excluding the impact of these specified items (detailed on page 20) and foreign exchange, cash earnings decreased $44 million to $224 million. The decrease in cash earnings was driven by lower revenue and higher operating expenses, which were partially offset by lower bad and doubtful debts.

Net operating income decreased by $67 million or 12.9%. Excluding the impact of foreign exchange, net operating income decreased by $62 million due to lower gains on Group Funding activities reflecting market conditions, combined with lower income on the SGA portfolio as a result of its continued run-down. This was partially offset by gains on the sale of available for sale investments.

Operating expenses increased by $1,289 million. Excluding the impact of specified items (detailed on page 20) and foreign exchange, operating expenses increased by $30 million primarily due to increased costs associated with the Group's strategic initiatives, higher marketing spend and impairment charges recognised on foreclosed properties. This was partially offset by lower employee incentive costs.

The **charge to provide for bad and doubtful debts** decreased by $60 million primarily due to the release of the economic cycle adjustment in the September half.

Income tax expense decreased by $68 million. Excluding the impact of specified items (detailed on page 20) and foreign exchange, income tax expense increased by $10 million.

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Section 5

Financial Report

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Income Statement

	Note	Year to Sep 14 $m	Year to Sep 13 [1] $m	Half Year to Sep 14 $m	Half Year to Mar 14 $m
Interest income		**30,778**	31,289	**15,509**	15,269
Interest expense		**(17,039)**	(17,938)	**(8,594)**	(8,445)
Net interest income		**13,739**	13,351	**6,915**	6,824
Premium and related revenue		**1,632**	1,511	**861**	771
Investment revenue		**7,387**	11,449	**3,628**	3,759
Fee income		**576**	546	**288**	288
Claims expense		**(961)**	(909)	**(500)**	(461)
Change in policy liabilities		**(5,918)**	(9,072)	**(2,886)**	(3,032)
Policy acquisition and maintenance expense		**(945)**	(928)	**(501)**	(444)
Investment management expense		**(13)**	(4)	**(3)**	(10)
Movement in external unitholders' liability		**(1,216)**	(2,114)	**(559)**	(657)
Net life insurance income		**542**	479	**328**	214
Gains less losses on financial instruments at fair value	3	**999**	769	**750**	249
Other operating income	3	**3,968**	3,604	**2,051**	1,917
Total other income		**4,967**	4,373	**2,801**	2,166
Personnel expenses	4	**(4,532)**	(4,394)	**(2,240)**	(2,292)
Occupancy-related expenses	4	**(645)**	(600)	**(322)**	(323)
General expenses	4	**(5,261)**	(3,311)	**(3,320)**	(1,941)
Total operating expenses		**(10,438)**	(8,305)	**(5,882)**	(4,556)
Charge to provide for doubtful debts	8	**(855)**	(1,810)	**(332)**	(523)
Profit before income tax expense		**7,955**	8,088	**3,830**	4,125
Income tax expense	5	**(2,657)**	(2,725)	**(1,391)**	(1,266)
Net profit for the period		**5,298**	5,363	**2,439**	2,859
Attributable to:					
Owners of the Company		**5,295**	5,355	**2,439**	2,856
Non-controlling interest in controlled entities		**3**	8	**-**	3
Net profit for the period		**5,298**	5,363	**2,439**	2,859
		cents	**cents**	**cents**	**cents**
Basic earnings per share		**222.1**	225.9	**101.8**	120.4
Diluted earnings per share		**218.3**	224.0	**100.2**	118.4

[1] *Restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

Statement of Comprehensive Income

	Note	Year to Sep 14 $m	Year to Sep 13 [(1)] $m	Half Year to Sep 14 $m	Half Year to Mar 14 $m
Net profit for the period		**5,298**	5,363	**2,439**	2,859
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gains/(losses) on defined benefit superannuation plans	11	**49**	51	**104**	(55)
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	11	**(44)**	-	**(24)**	(20)
Revaluation of land and buildings	11	**3**	6	**3**	-
Exchange differences on translation of other contributed equity		**81**	221	**33**	48
Tax on items transferred directly (from)/to equity	11	**(6)**	(68)	**(24)**	18
Total items that will not be reclassified to profit or loss		**83**	210	**92**	(9)
Items that will be reclassified subsequently to profit or loss					
Cash flow hedges:					
(Losses)/gains on cash flow hedging instruments	11	**(119)**	(438)	**41**	(160)
(Gains)/losses transferred to the income statement	11	**(84)**	11	**(90)**	6
Exchange differences on translation of foreign operations		**493**	1,158	**4**	489
Investments - available for sale:					
Revaluation gains/(losses)	11	**263**	(18)	**58**	205
Gains from sale transferred to the income statement	11	**(94)**	(38)	**(59)**	(35)
Impairment transferred to the income statement	11	**4**	13	**4**	-
Tax on items transferred directly (from)/to equity		**(34)**	61	**4**	(38)
Total items that will be reclassified subsequently to profit or loss		**429**	749	**(38)**	467
Other comprehensive income for the period, net of income tax		**512**	959	**54**	458
Total comprehensive income for the period		**5,810**	6,322	**2,493**	3,317
Attributable to:					
Owners of the Company		**5,807**	6,314	**2,493**	3,314
Non-controlling interest in controlled entities		**3**	8	**-**	3
Total comprehensive income for the period		**5,810**	6,322	**2,493**	3,317

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

Balance Sheet

	Note	As at 30 Sep 14 $m	31 Mar 14 $m	30 Sep 13 [1] $m
Assets				
Cash and liquid assets		**41,034**	38,095	35,666
Due from other banks		**39,088**	50,246	43,193
Trading derivatives		**57,389**	41,784	39,214
Trading securities		**44,212**	38,782	32,996
Investments - available for sale		**43,386**	37,558	34,886
Investments - held to maturity		**2,919**	3,708	4,758
Investments relating to life insurance business		**85,032**	81,282	77,587
Other financial assets at fair value		**84,488**	80,268	75,756
Hedging derivatives		**5,488**	4,276	3,926
Loans and advances		**434,725**	423,711	412,301
Due from customers on acceptances		**23,437**	25,917	29,319
Current tax assets		**-**	50	63
Property, plant and equipment		**1,952**	1,951	1,993
Goodwill and other intangible assets		**7,720**	7,830	7,641
Deferred tax assets		**1,617**	1,332	1,624
Other assets		**10,814**	9,224	8,947
Total assets		**883,301**	846,014	809,870
Liabilities				
Due to other banks		**45,204**	44,881	34,623
Trading derivatives		**55,858**	43,895	41,749
Other financial liabilities at fair value		**28,973**	27,287	26,431
Hedging derivatives		**3,445**	3,245	3,431
Deposits and other borrowings	10	**476,208**	462,297	445,042
Liability on acceptances		**61**	12	3,228
Life policy liabilities		**71,701**	67,630	64,509
Current tax liabilities		**729**	338	922
Provisions		**2,914**	1,405	1,636
Bonds, notes and subordinated debt		**118,165**	115,779	110,717
Other debt issues		**4,686**	4,663	2,944
Defined benefit superannuation plan liabilities		**12**	278	354
External unitholders' liability		**14,123**	14,690	14,077
Other liabilities		**13,314**	12,136	13,831
Total liabilities		**835,393**	798,536	763,494
Net assets		**47,908**	47,478	46,376
Equity				
Contributed equity	11	**28,380**	28,151	27,944
Reserves	11	**(866)**	(960)	(1,420)
Retained profits	11	**20,377**	20,269	19,793
Total equity (parent entity interest)		**47,891**	47,460	46,317
Non-controlling interest in controlled entities		**17**	18	59
Total equity		**47,908**	47,478	46,376

[1] *Restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

Condensed Cash Flow Statement

	Note	Year to Sep 14 $m	Year to Sep 13 (1) $m	Half Year to Sep 14 $m	Half Year to Mar 14 $m
Cash flows from operating activities					
Interest received		**30,369**	31,232	**15,306**	15,063
Interest paid		**(17,146)**	(18,304)	**(8,663)**	(8,483)
Dividends received		**16**	10	**12**	4
Income taxes paid		**(2,709)**	(1,845)	**(1,217)**	(1,492)
Other cash flows from operating activities before changes in operating assets and liabilities		**(4,073)**	(46)	**(61)**	(4,012)
Changes in operating assets and liabilities arising from cash flow movements		**(13,692)**	(9,883)	**(10,229)**	(3,463)
Net cash (used in)/provided by operating activities		**(7,235)**	1,164	**(4,852)**	(2,383)
Net cash used in investing activities		**(7,042)**	(2,752)	**(5,029)**	(2,013)
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(24,884)**	(24,442)	**(13,557)**	(11,327)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**28,211**	25,777	**12,191**	16,020
Proceeds from issue of ordinary shares, net of costs		**9**	20	**2**	7
Repayments of BNZ income securities, net of costs		**(203)**	(380)	**(203)**	-
Proceeds from other debt issues, net of costs		**1,699**	1,496	**-**	1,699
Purchase of shares for dividend reinvestment plan neutralisation		**(309)**	(300)	**-**	(309)
Dividends and distributions paid (excluding dividend reinvestment plan)		**(3,973)**	(3,480)	**(1,983)**	(1,990)
Net cash provided by/(used in) financing activities		**550**	(1,309)	**(3,550)**	4,100
Net decrease in cash and cash equivalents		**(13,727)**	(2,897)	**(13,431)**	(296)
Cash and cash equivalents at beginning of period		**37,341**	36,212	**38,458**	37,341
Effects of exchange rate changes on balance of cash held in foreign currencies		**2,903**	4,026	**1,490**	1,413
Cash and cash equivalents at end of period	12	**26,517**	37,341	**26,517**	38,458

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

Statement of Changes in Equity

Group – Yearly

	Contributed equity (1) (3) $m	Reserves (1) $m	Retained profits (1) (3) $m	Total (3) $m	Non-controlling interest in controlled entities $m	Total equity (3) $m
Balance at 1 October 2012	27,373	(2,319)	18,702	43,756	47	**43,803**
Restated for adoption of new accounting standards	(187)	-	9	(178)	-	**(178)**
Net profit for the period	-	-	5,355	5,355	8	**5,363**
Other comprehensive income for the year	-	976	(17)	959	-	**959**
Total comprehensive income for the year	-	976	5,338	6,314	8	**6,322**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	843	-	-	843	-	**843**
Exercise of executive share options	20	-	-	20	-	**20**
Conversion of other debt issues	500	-	-	500	-	**500**
Buyback of BNZ Income Securities	(380)	-	-	(380)	-	**(380)**
Transfer from equity-based compensation reserve	195	(195)	-	-	-	**-**
Treasury shares adjustment relating to life insurance business	(120)	-	-	(120)	-	**(120)**
On market purchase of shares for dividend reinvestment plan neutralisation	(300)	-	-	(300)	-	**(300)**
Transfer (to)/from retained profits	-	(67)	67	-	-	**-**
Equity-based compensation	-	185	-	185	-	**185**
Dividends paid	-	-	(4,135)	(4,135)	-	**(4,135)**
Distributions on other equity instruments	-	-	(188)	(188)	-	**(188)**
Changes in ownership interests (2)						
Movement of non-controlling interest in controlled entities	-	-	-	-	4	**4**
Balance at 30 September 2013	27,944	(1,420)	19,793	46,317	59	**46,376**
Net profit for the period	-	-	5,295	5,295	3	**5,298**
Other comprehensive income for the period	-	513	(1)	512	-	**512**
Total comprehensive income for the year	-	513	5,294	5,807	3	**5,810**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	677	-	-	677	-	**677**
Exercise of executive share options	9	-	-	9	-	**9**
Buyback of BNZ Income Securities	(203)	-	-	(203)	-	**(203)**
Transfer from equity-based compensation reserve	182	(182)	-	-	-	**-**
Treasury shares adjustment relating to life insurance business	80	-	-	80	-	**80**
On market purchase of shares for dividend reinvestment plan neutralisation	(309)	-	-	(309)	-	**(309)**
Transfer from/(to) retained profits	-	60	(60)	-	-	**-**
Equity-based compensation	-	163	-	163	-	**163**
Dividends paid	-	-	(4,470)	(4,470)	-	**(4,470)**
Distributions on other equity instruments	-	-	(180)	(180)	-	**(180)**
Changes in ownership interests (2)						
Movement of non-controlling interest in controlled entities	-	-	-	-	(45)	**(45)**
Balance at 30 September 2014	28,380	(866)	20,377	47,891	17	**47,908**

(1) *Refer to Note 11 Contributed Equity and Reserves for detail.*

(2) *Change in ownership interests in controlled entities that does not result in a loss of control.*

(3) *Prior periods have been restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

Statement of Changes in Equity

Group – Half Yearly

	Contributed equity (1) (3) $m	Reserves (1) $m	Retained profits (1) (3) $m	Total (3) $m	Non-controlling interest in controlled entities $m	Total equity (3) $m
Balance at 1 October 2013 (3)	27,944	(1,420)	19,793	46,317	59	**46,376**
Net profit for the period	-	-	2,856	2,856	3	**2,859**
Other comprehensive income for the period	-	515	(57)	458	-	**458**
Total comprehensive income for the period	-	515	2,799	3,314	3	**3,317**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	309	-	-	309	-	**309**
Exercise of executive share options	7	-	-	7	-	**7**
Transfer from equity-based compensation reserve	167	(167)	-	-	-	**-**
Treasury shares adjustment relating to life insurance business	33	-	-	33	-	**33**
On market purchase of shares for dividend reinvestment plan neutralisation	(309)	-	-	(309)	-	**(309)**
Transfer from/(to) retained profits	-	24	(24)	-	-	**-**
Equity-based compensation	-	88	-	88	-	**88**
Dividends paid	-	-	(2,209)	(2,209)	-	**(2,209)**
Distributions on other equity instruments	-	-	(90)	(90)	-	**(90)**
Changes in ownership interests (2)						
Movement of non-controlling interest in controlled entities	-	-	-	-	(44)	**(44)**
Balance at 31 March 2014	28,151	(960)	20,269	47,460	18	**47,478**
Net profit for the period	-	-	2,439	2,439	-	**2,439**
Other comprehensive income for the period	-	(2)	56	54	-	**54**
Total comprehensive income for the period	-	(2)	2,495	2,493	-	**2,493**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	368	-	-	368	-	**368**
Exercise of executive share options	2	-	-	2	-	**2**
Buyback of BNZ Income Securities	(203)	-	-	(203)	-	**(203)**
Transfer from equity-based compensation reserve	15	(15)	-	-	-	**-**
Treasury shares adjustment relating to life insurance business	47	-	-	47	-	**47**
Transfer from/(to) retained profits	-	36	(36)	-	-	**-**
Equity-based compensation	-	75	-	75	-	**75**
Dividends paid	-	-	(2,261)	(2,261)	-	**(2,261)**
Distributions on other equity instruments	-	-	(90)	(90)	-	**(90)**
Changes in ownership interests (2)						
Movement of non-controlling interest in controlled entities	-	-	-	-	(1)	**(1)**
Balance at 30 September 2014	28,380	(866)	20,377	47,891	17	**47,908**

(1) *Refer to Note 11 Contributed Equity and Reserves for detail.*

(2) *Change in ownership interests in controlled entities that does not result in a loss of control.*

(3) *Restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

1. Principal Accounting Policies

The preliminary financial report for the year ended 30 September 2014 has been prepared in accordance with the Australian Securities Exchange (ASX) Listing Rules.

This report does not, and cannot be expected to, contain all disclosures of the type normally found within an annual financial report and it is not designed or intended to be a suitable substitute for the 30 September 2014 annual financial report.

This report should be read in conjunction with the annual financial report for the year ended 30 September 2013, the 31 March 2014 half year results, any public announcements made by the Group during the year and when released, the 2014 Annual Financial Report.

This report has been prepared on the basis of accounting policies consistent with those applied in the 30 September 2013 annual financial report, except as disclosed below.

a) New and amended standards and interpretations

The Group applied certain standards and amendments from 1 October 2013 that required a restatement of comparatives provided in previous financial statements. The total impact of these changes to net profit was a $97 million decrease, taking net profit from $5,452 million to $5,355 million for the 30 September 2013 financial year.

The nature and impact of each new standard and amendment is described below.

Amended AASB 119 'Employee Benefits' (and consequential amendment AASB 2011-10)

The amended accounting standard requires the amounts recorded in profit or loss to be limited to current and past service costs, gains or losses, settlements and net interest income (expense). All other changes in the net defined benefit asset (liability), including actuarial gains and losses, will be recognised in other comprehensive income with no subsequent recycling to profit or loss. The expected return on plan assets is no longer recognised in profit or loss. Instead, interest income is now measured using the same discount rate used to measure the defined benefit obligation. The impact was a decrease in net profit of $26 million for the year ended 30 September 2013.

When combined with an offsetting increase to other comprehensive income for the same amount, there was no overall impact to retained earnings.

AASB 10 'Consolidated Financial Statements' (and consequential amendments AASB 2011-7 and 2012-10)

This standard introduces a single control model to determine which investees should be consolidated. It defines control as consisting of three elements: power, exposure to variable returns, and an investor's ability to use power to affect its amount of variable returns. This requires an analysis of all facts and circumstances and the application of judgement in making the control assessment.

The impact of adopting this new standard has resulted in the Group consolidating some entities that were previously not consolidated and some other entities are no longer required to be consolidated. Entities that are newly consolidated are primarily due to instances where the Group has reassessed its involvement with a managed investment scheme, for example through their role as responsible entity, trustee or in some instances, fund manager.

The overall net impact for 30 September 2013 was an increase in total assets of $1,443 million, an increase in total liabilities of $1,687 million and a decrease in total equity of $244 million.

There was a reduction in net profit for the year ended 30 September 2013 of $71 million. This was mainly attributable to the elimination of marked-to-market movements arising from changes in the Company share price, dividend income and realised profits and losses on the disposal of shares that relate to treasury shares that have arisen from consolidating new entities.

AASB 12 'Disclosure of Interests in Other Entities'

AASB 12 includes all disclosures relating to interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures outlining the Group's involvement with structured entities will be incorporated into the 2014 Annual Financial Report. AASB 12 has no impact on this financial report.

AASB 13 'Fair Value Measurement' (and consequential amendment AASB 2011-8)

AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. AASB 13 applies to both financial instrument items and non-financial instrument items for which other accounting standards require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions, leasing transactions, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price, regardless of whether that price is directly observable or estimated using another valuation technique. AASB 13 also includes extensive disclosure requirements.

In accordance with the transitional provisions of AASB 13, the Group has not made any new disclosures required by the standard for the 2013 comparative period in this financial report. The application of AASB 13 has not had any material impact on the amounts recognised in the consolidated financial statements, however additional disclosures will be incorporated into the 2014 Annual Financial Report.

Interpretation 21 'Levies'

This interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. The Group has early adopted this interpretation from 1 October 2013. There is no material impact on the financial statements as a result of this early adoption.

AASB 9 'Financial Instruments' – Own credit risk

The Group has elected to early adopt the 'own credit' provisions in AASB 9 from 1 October 2013. These provisions require an entity to present in other comprehensive income the fair value gains and losses attributable to changes in the entity's own credit risk for financial liabilities designated and measured at fair value through profit or loss. In accordance with the transition requirements of these provisions, comparatives have not been restated.

The credit risk adjustment for the year ended 30 September 2014 was a $31 million (after tax) loss.

Other new standards and interpretations

The Group has adopted the following new and amended standards and interpretations as of 1 October 2013 with no material impact:

- AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities' has been amended to clarify the conditions for offsetting financial assets and liabilities. These amendments do not have an impact on the Group's current accounting practice for offsetting arrangements. However additional disclosures will be incorporated in the 2014 Annual Financial Report
- AASB 11 'Joint Arrangements' (and consequential amendments AASB 2011-7, 2010-10 and amendments to AASB 128) introduces a revised model for accounting for joint arrangements
- AASB 1053 'Application of Tiers of Australian Accounting Standards' establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. The Group is considered Tier 1
- AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements' removes the requirements to include individual key management personnel disclosures in the notes to the financial statements, although does not change the Corporations Act 2001 (Cth) requirements in respect of the Remuneration report
- AASB 2012-5 'Amendments to Australian Accounting Standards arising from annual improvements 2009-2011 cycle' provides clarification of the requirements for comparative information and other financial instrument presentation changes
- AASB 2012-9 'Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039' amends AASB 1048 Interpretation of Standards to evidence the withdrawal of Australian Interpretation 1039 Substantive Enactment of Major Tax Bills in Australia
- AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'. Part A of the amendment makes consequential amendments arising from the issuance of AASB CF 2013-1 'Amendment to the Australian Conceptual Framework' which replaces the guidance in the Framework on the objective of general purpose financial reporting and the qualitative characteristics of useful financial information, as an integral part of the Framework. It also withdraws Statement of Accounting Concepts SAC 2 Objective of General Purpose Financial Reporting.

b) Changes in accounting policy

Research and development expenditure tax offsets

The Group has changed its accounting policy for tax offsets related to research and development expenditure. The Group previously recognised such tax offsets as a reduction in income tax expense in the period in which the related expenditure was made. Under the revised accounting policy, the tax benefit from research and development expenditure is recognised as a reduction in the related asset or operating expenses, depending on the nature of the expenditure. It is considered that the revised accounting policy provides more relevant information by matching the tax benefit to the underlying expenditure.

The revised accounting policy has been applied from when tax offsets in respect of research and development expenditure were introduced, with the cumulative impact recognised fully in the current year. The impact for the year ended 30 September 2014 was a decrease in total assets of $28 million (consisting of a decrease in intangible assets of $40 million, offset by an increase in deferred tax assets of $12 million), and a decrease in net profit after tax of $28 million (consisting of a decrease in general expenses of $40 million, offset by an increase in income tax expense of $68 million).

c) 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 to the Group include:

- provisions for doubtful debts
- provisions for UK related conduct related matters, including payment protection insurance and interest rate hedging product provisions
- life insurance and life investment contract liabilities
- fair value of financial assets and liabilities
- defined benefit obligations
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives.

d) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

2. Segment Information

The Group evaluates reportable segments' performance on the basis of cash earnings. Cash earnings represents the net profit attributable to owners of the Company, adjusted for certain non-cash items, distributions, and significant items.

Following the Group's organisational realignment of the Australian business announced in March 2013, the Group's business now consists of the following reportable segments: Australian Banking; NAB Wealth; and NZ Banking. In addition, information on the following segments that do not meet the threshold to be reportable segments are also included in this note to reconcile to Group information: UK Banking; NAB UK Commercial Real Estate and Corporate Functions and Other.

As a result of these changes, the presentation of segment information for the year ended 30 September 2013 has been amended and includes the following changes:

- Financial information previously presented for Personal Banking, Business Banking and Wholesale Banking is now presented on a combined basis as Australian Banking
- Financial information for NAB Wealth no longer includes the NAB Private Wealth business which is now reported in Australian Banking
- Financial information presented for Corporate Functions and Other reflects changed attributions between Corporate Functions, Australian Banking and NAB Wealth.

Following the initial public offering of a minority shareholding in Great Western Bank (GWB) in the United States (US), GWB's operations have been included in Corporate Functions and Other. GWB's results will be separately reported to the market in line with their reporting obligations in the US.

Major Customers

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

Reportable Segments

	Year ended 30 September 2014			
Segment Information	**Cash Earnings $m**	**Net interest income $m**	**Total other income $m**	**Total assets $m**
Australian Banking	4,947	10,277	2,640	702,266
NAB Wealth	365	-	1,440	96,886
NZ Banking	738	1,382	449	59,872
UK Banking	284	1,367	376	69,972
NAB UK Commercial Real Estate	42	37	31	4,663
Corporate Functions and Other [(1)]	(1,012)	712	261	21,071
Distributions/Eliminations	(180)	-	(59)	(71,429)
Total	5,184	13,775	5,138	883,301

	Year ended 30 September 2013 [(2)]			
Segment Information	**Cash Earnings $m**	**Net interest income $m**	**Total other income $m**	**Total assets $m**
Australian Banking	4,942	10,096	3,001	633,591
NAB Wealth	322	-	1,370	89,648
NZ Banking	649	1,207	411	56,856
UK Banking	124	1,177	368	64,314
NAB UK Commercial Real Estate	(375)	61	(17)	6,600
Corporate Functions and Other [(1)]	273	866	124	38,803
Distributions/Eliminations	(188)	-	(101)	(79,942)
Total	5,747	13,407	5,156	809,870

	Half Year ended 30 September 2014			
Segment Information	**Cash Earnings $m**	**Net interest income $m**	**Total other income $m**	**Total assets $m**
Australian Banking	2,473	5,191	1,253	702,266
NAB Wealth	191	-	717	96,886
NZ Banking	373	701	224	59,872
UK Banking	153	685	188	69,972
NAB UK Commercial Real Estate	54	15	28	4,663
Corporate Functions and Other [(1)]	(1,120)	340	113	21,071
Distributions/Eliminations	(90)	-	(29)	(71,429)
Total	2,034	6,932	2,494	883,301

(1) *Corporate Functions and Other includes the impacts of provisions taken for UK related payment protection insurance and interest rate hedging products.*

(2) *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes and for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

Segment Information	Half Year ended 31 March 2014 Cash Earnings $m	Net interest income $m	Total other income $m	Total assets $m
Australian Banking	2,474	5,086	1,387	676,490
NAB Wealth	174	-	723	93,484
NZ Banking	365	681	225	61,148
UK Banking	131	682	188	67,211
NAB UK Commercial Real Estate	(12)	22	3	5,591
Corporate Functions and Other [(1)]	108	372	148	27,636
Distributions/Eliminations	(90)	-	(30)	(85,546)
Total	3,150	6,843	2,644	846,014

(1) *Corporate Functions and Other includes the impacts of provisions taken for UK related payment protection insurance and interest rate hedging products.*

Reconciliations between reportable segment information and statutory results

Reconciliation of cash earnings to net profit attributable to owners of the Company	Year to Sep 14 $m	Year to Sep 13 $m	Half Year to Sep 14 $m	Half Year to Mar 14 $m
Group cash earnings [(1) (2) (3)]	**5,184**	5,747	**2,034**	3,150
Non-cash earnings items (after tax):				
Distributions	**180**	188	**90**	90
Treasury shares [(2)]	**(43)**	(413)	**70**	(113)
Fair value and hedge ineffectiveness	**83**	(151)	**311**	(228)
DAC discount rate variation	**(20)**	22	**(21)**	1
Litigation expense	**-**	39	**-**	-
Amortisation of acquired intangible assets	**(89)**	(77)	**(45)**	(44)
Net profit attributable to owners of the Company	**5,295**	5,355	**2,439**	2,856

Reconciliation of net interest income	Year to Sep 14 $m	Year to Sep 13 $m	Half Year to Sep 14 $m	Half Year to Mar 14 $m
Net interest income on a cash earnings basis	**13,775**	13,407	**6,932**	6,843
NAB Wealth net adjustment [(4)]	**(36)**	(56)	**(17)**	(19)
Net interest income on a statutory basis	**13,739**	13,351	**6,915**	6,824

Reconciliation of other income and IoRE	Year to Sep 14 $m	Year to Sep 13 $m	Half Year to Sep 14 $m	Half Year to Mar 14 $m
Other operating income on cash earnings basis [(1) (3)]	**5,104**	5,125	**2,475**	2,629
IoRE	**34**	31	**19**	15
Total other operating income and IoRE	**5,138**	5,156	**2,494**	2,644
NAB Wealth net adjustment [(4)]	**342**	667	**147**	195
Treasury shares [(2)]	**(22)**	(467)	**96**	(118)
Fair value and hedge ineffectiveness	**96**	(313)	**423**	(327)
DAC discount rate variation	**(29)**	32	**(30)**	1
Amortisation of acquired intangible assets	**(16)**	(19)	**(1)**	(15)
Customer redress provision	**-**	(204)	**-**	-
Total other income and net life insurance income on a statutory basis	**5,509**	4,852	**3,129**	2,380

(1) *Includes eliminations and distributions.*

(2) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

(3) *September 2013 has been restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes.*

(4) *The NAB Wealth net adjustment represents a reallocation of the income statement of the NAB Wealth business prepared on a cash earnings basis into the appropriate statutory income lines.*

3. Other Income

	Year to		Half Year to	
	Sep 14 $m	Sep 13 $m	Sep 14 $m	Mar 14 $m
Gains less losses on financial instruments at fair value				
Trading securities	**812**	162	**724**	88
Trading derivatives:				
Trading and risk management purposes	**243**	1,391	**(242)**	485
Assets, liabilities and derivatives designated in hedge relationships (1)	**251**	93	**452**	(201)
Assets and liabilities designated at fair value	**(270)**	(900)	**(130)**	(140)
Impairment of investments - available for sale	**(4)**	(13)	**(4)**	-
Other	**(33)**	36	**(50)**	17
Total gains less losses on financial instruments at fair value	**999**	769	**750**	249
Other operating income				
Dividend revenue	**16**	10	**12**	4
Gains from sale of investments, loans, property, plant and equipment and other assets	**130**	38	**95**	35
Banking fees	**943**	969	**476**	467
Money transfer fees	**673**	654	**338**	335
Fees and commissions	**1,798**	1,734	**911**	887
Investment management fees	**238**	204	**123**	115
Fleet management fees	**30**	29	**15**	15
Rentals received on leased vehicle assets	**11**	12	**6**	5
Other income (2)	**129**	(46)	**75**	54
Total other operating income	**3,968**	3,604	**2,051**	1,917
Total other income	**4,967**	4,373	**2,801**	2,166

(1) *Represents hedge ineffectiveness of designated hedging relationships, plus economic hedges of long-term funding that do not meet the requirements for hedge accounting.*

(2) *Other income includes the charge for an additional provision in relation to UK payment protection insurance of $204 million for the September 2013 full year.*

4. Operating Expenses

	Year to		Half Year to	
	Sep 14 $m	Sep 13 $m	Sep 14 $m	Mar 14 $m
Personnel expenses				
Salaries and related on-costs	**3,404**	3,242	**1,700**	1,704
Superannuation costs - defined contribution plans	**277**	266	**142**	135
Superannuation costs - defined benefit plans [1]	**51**	63	**21**	30
Performance-based compensation:				
Cash	**382**	312	**189**	193
Equity-based compensation	**153**	174	**70**	83
Total performance-based compensation [2]	**535**	486	**259**	276
Other expenses	**265**	337	**118**	147
Total personnel expenses	**4,532**	4,394	**2,240**	2,292
Occupancy-related expenses				
Operating lease rental expense	**501**	447	**252**	249
Other expenses	**144**	153	**70**	74
Total occupancy-related expenses	**645**	600	**322**	323
General expenses				
Fees and commission expense	**322**	285	**181**	141
Depreciation and amortisation of property, plant and equipment	**306**	301	**153**	153
Amortisation of intangible assets	**396**	330	**211**	185
Depreciation on leased vehicle assets	**7**	8	**3**	4
Operating lease rental expense	**28**	30	**16**	12
Advertising and marketing	**247**	205	**135**	112
Charge to provide for operational risk event losses [3]	**1,536**	146	**1,284**	252
Communications, postage and stationery	**307**	295	**153**	154
Computer equipment and software	**605**	559	**297**	308
Data communication and processing charges	**110**	134	**55**	55
Transport expenses	**92**	86	**45**	47
Professional fees	**422**	373	**204**	218
Travel	**87**	79	**44**	43
Loss on disposal of property, plant and equipment and other assets	**6**	16	**5**	1
Impairment losses recognised	**294**	8	**294**	-
Other expenses	**496**	456	**240**	256
Total general expenses	**5,261**	3,311	**3,320**	1,941
Total operating expenses	**10,438**	8,305	**5,882**	4,556

(1) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

(2) *Performance-based compensation includes deferred compensation that is expensed over the vesting period. Performance-based compensation expense in each year also includes prior period over/under accruals and for the full year 2014 does not include the impact of decisions made by the Board Remuneration Committee subsequent to balance date. The impact of any over/under accrual will be reflected in the full year 2015 financial statements.*

(3) *Charge to provide for operational risk event losses includes an additional provision in relation to UK payment protection insurances of $756 million and for interest rate hedging products (IRHP) of $654 million for the September 2014 full year. The September 2013 comparatives includes $56 million for IRHP.*

5. Income Tax Expense

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

	Year to		Half Year to	
	Sep 14 $m	Sep 13 $m	Sep 14 $m	Mar 14 $m
Profit before income tax expense (1)	7,955	8,088	3,830	4,125
Deduct profit before income tax expense attributable to the statutory funds of the life insurance business and their controlled trusts	(464)	(885)	(179)	(285)
Total profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts, before income tax expense	7,491	7,203	3,651	3,840
Prima facie income tax at 30%	2,247	2,161	1,095	1,152
Add/(deduct): Tax effect of amounts not deductible/(assessable):				
Assessable foreign income	8	8	7	1
Foreign tax rate differences (1)	51	30	54	(3)
Foreign branch income not assessable	(98)	(103)	(48)	(50)
Under/(over) provision in prior years	(37)	(13)	(23)	(14)
Offshore banking unit income	(35)	(49)	(18)	(17)
Restatement of deferred tax balance for UK and US tax rate changes	42	13	44	(2)
Treasury shares adjustment	27	86	(3)	30
Non-deductible hybrid distributions	35	10	20	15
Deferred tax asset no longer recognised	142	-	142	-
Other	52	(40)	57	(5)
Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts	2,434	2,103	1,327	1,107
Income tax expense/(benefit) attributable to the statutory funds of the life insurance business and their controlled trusts	223	622	64	159
Total income tax expense	2,657	2,725	1,391	1,266
Effective tax rate, excluding statutory funds attributable to the life insurance business and their controlled trusts	32.5%	29.2%	36.3%	28.8%

(1) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

6. Dividends and Distributions

Dividends on ordinary shares recognised by the Group during the year ended 30 September:

	Amount per share cents	Total amount $m
2014		
Final dividend declared in respect of the year ended 30 September 2013	97	2,279
Interim dividend declared in respect of the year ended 30 September 2014	99	2,330
Deduct: Bonus shares in lieu of dividend	n/a	(56)
Dividends paid by the Company during the year ended 30 September 2014		4,553
Deduct: Dividends on treasury shares		(95)
Total dividends paid by the Group during the year ended 30 September 2014		4,458
2013		
Final dividend declared in respect of the year ended 30 September 2012	90	2,070
Interim dividend declared in respect of the year ended 30 September 2013	93	2,179
Deduct: Bonus shares in lieu of dividend	n/a	(53)
Dividends paid by the Company during the year ended 30 September 2013		4,196
Deduct: Dividends on treasury shares [(1)]		(88)
Total dividends paid by the Group during the year ended 30 September 2013		4,108

(1) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

Franked dividends declared or paid during the year were fully franked at a tax rate of 30% (2013: 30%).

Final Dividend

On 30 October 2014, the directors declared the following dividend:

	Amount per share cents	Franked amount per share %	Foreign income per share %	Total amount $m
Final dividend declared in respect of the year ended 30 September 2014	99	100	Nil	2,342

The 2014 final dividend will be fully franked for Australian tax purposes. New Zealand imputation credits of NZ$0.10 per share will also be attached to the 2014 final dividend.

The record date for determining entitlements to the 2014 final dividend is 11 November 2014. The final dividend has been declared by the directors of the Company and is payable on 16 December 2014. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2014 and will be recognised in subsequent financial reports.

	Year to			
	30 Sep 14		30 Sep 13	
Dividends on preference shares	Amount per security cents [(1)]	Total amount $m	Amount per security cents [(1)]	Total amount $m
BNZ Income Securities	-	-	2.89	13
BNZ Income Securities 2	4.62	12	5.38	14
Total dividends on preference shares		12		27

(1) *$A equivalent.*

	Year to			
	30 Sep 14		30 Sep 13	
Distributions on other equity instruments	Amount per security $	Total amount $m	Amount per security $	Total amount $m
National Income Securities	3.90	78	4.40	88
Trust Preferred Securities [(1)]	100.00	40	87.50	35
Trust Preferred Securities II [(1)]	60.00	48	55.00	44
National Capital Instruments	1,750.00	14	2,625.00	21
Total distributions on other equity instruments		180		188

(1) *$A equivalent.*

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 Bonus Share Plan is 5pm (Australian Eastern Daylight Time) on 12 November 2014.

7. Loans and Advances including Acceptances

	As at		
	30 Sep 14 $m	**31 Mar 14 $m**	**30 Sep 13 $m**
Housing loans	**312,039**	300,627	289,363
Other term lending [(1)]	**170,105**	165,882	160,845
Asset and lease financing	**11,729**	12,563	13,069
Overdrafts	**10,521**	12,060	13,534
Credit card outstandings	**7,998**	8,007	7,867
Other	**8,946**	8,643	7,395
Fair value adjustment	**586**	473	687
Gross loans and advances	**521,924**	508,255	492,760
Acceptances	**23,437**	25,917	29,319
Gross loans and advances including acceptances	**545,361**	534,172	522,079
Represented by:			
Loans and advances at fair value [(2)]	**82,968**	79,522	75,012
Loans and advances at amortised cost [(1)]	**438,956**	428,733	417,748
Acceptances	**23,437**	25,917	29,319
Gross loans and advances including acceptances	**545,361**	534,172	522,079
Unearned income and deferred net fee income	**(1,113)**	(1,181)	(1,429)
Provision for doubtful debts	**(3,118)**	(3,841)	(4,018)
Net loans and advances including acceptances	**541,130**	529,150	516,632
Securitised loans and loans supporting covered bonds [(3)]	**35,169**	34,665	30,340

(1) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

(2) *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.*

(3) *Loans supporting securitisations and covered bonds are included within the balance of net loans and advances including acceptances.*

By product and geographic location	**Australia $m**	**Europe $m**	**New Zealand $m**	**United States $m**	**Asia $m**	**Total Group $m**
As at 30 September 2014						
Housing loans	247,312	34,257	27,298	851	2,321	**312,039**
Other term lending	111,787	19,579	26,541	8,366	3,832	**170,105**
Asset and lease financing	10,463	1,255	7	-	4	**11,729**
Overdrafts	4,950	3,699	1,849	6	17	**10,521**
Credit card outstandings	6,129	677	1,157	35	-	**7,998**
Other	3,696	842	945	-	3,463	**8,946**
Fair value adjustment	501	191	(114)	8	-	**586**
Gross loans and advances	384,838	60,500	57,683	9,266	9,637	**521,924**
Acceptances	23,427	10	-	-	-	**23,437**
Gross loans and advances including acceptances	408,265	60,510	57,683	9,266	9,637	**545,361**
Represented by:						
Loans and advances at fair value	54,848	3,833	23,162	1,125	-	**82,968**
Loans and advances at amortised cost	329,990	56,667	34,521	8,141	9,637	**438,956**
Acceptances	23,427	10	-	-	-	**23,437**
Gross loans and advances including acceptances	408,265	60,510	57,683	9,266	9,637	**545,361**

By product and geographic location	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total Group $m
As at 31 March 2014						
Housing loans	238,822	30,800	27,949	798	2,258	**300,627**
Other term lending	106,124	21,402	27,154	7,312	3,890	**165,882**
Asset and lease financing	10,881	1,669	8	-	5	**12,563**
Overdrafts	5,575	4,403	2,060	6	16	**12,060**
Credit card outstandings	6,020	673	1,284	30	-	**8,007**
Other	3,906	894	889	-	2,954	**8,643**
Fair value adjustment	428	163	(112)	(6)	-	**473**
Gross loans and advances	371,756	60,004	59,232	8,140	9,123	**508,255**
Acceptances	25,905	12	-	-	-	**25,917**
Gross loans and advances including acceptances	397,661	60,016	59,232	8,140	9,123	**534,172**
Represented by:						
Loans and advances at fair value	50,635	4,587	23,346	954	-	**79,522**
Loans and advances at amortised cost	321,121	55,417	35,886	7,186	9,123	**428,733**
Acceptances	25,905	12	-	-	-	**25,917**
Gross loans and advances including acceptances	397,661	60,016	59,232	8,140	9,123	**534,172**

By product and geographic location	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total Group $m
As at 30 September 2013						
Housing loans	232,251	28,016	26,213	758	2,125	**289,363**
Other term lending [(1)]	102,819	22,498	25,268	7,003	3,257	**160,845**
Asset and lease financing	11,293	1,761	10	-	5	**13,069**
Overdrafts	6,556	4,821	2,111	17	29	**13,534**
Credit card outstandings	5,972	687	1,184	24	-	**7,867**
Other	3,833	921	793	-	1,848	**7,395**
Fair value adjustment	523	251	(81)	(6)	-	**687**
Gross loans and advances	363,247	58,955	55,498	7,796	7,264	**492,760**
Acceptances	29,311	8	-	-	-	**29,319**
Gross loans and advances including acceptances	392,558	58,963	55,498	7,796	7,264	**522,079**
Represented by:						
Loans and advances at fair value	47,359	5,353	21,397	903	-	**75,012**
Loans and advances at amortised cost [(1)]	315,888	53,602	34,101	6,893	7,264	**417,748**
Acceptances	29,311	8	-	-	-	**29,319**
Gross loans and advances including acceptances	392,558	58,963	55,498	7,796	7,264	**522,079**

(1) Restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.

8. Provision for Doubtful Debts

	As at		
	30 Sep 14 $m	31 Mar 14 $m	30 Sep 13 $m
Specific provision for doubtful debts	1,358	1,782	1,840
Collective provision for doubtful debts	1,760	2,059	2,178
Total provision for doubtful debts	3,118	3,841	4,018
Specific provision on loans at fair value [(1)]	96	172	190
Collective provision on loans and derivatives at fair value [(1)] [(2)]	876	853	781
Total provision for doubtful debts and provisions held on assets at fair value [(3)]	4,090	4,866	4,989

(1) *Included within the carrying value of other financial assets at fair value.*

(2) *Included within this amount is a collective provision relating to derivatives of $165 million, (March 2014 $173 million, September 2013 $176 million).*

(3) *Not included in total provisions for doubtful debts are provisions on investments - held to maturity of $26 million (March 2014 $61 million, September 2013 $77 million).*

Movement in provisions for doubtful debts

	Year to Sep 14			Year to Sep 13		
	Specific $m	Collective $m	Total $m	Specific $m	Collective $m	Total $m
Opening balance	1,840	2,178	4,018	1,875	2,346	4,221
Transfer to/(from) specific/collective provision	1,299	(1,299)	-	2,045	(2,045)	-
Bad debts recovered	185	-	185	160	-	160
Bad debts written off	(1,760)	-	(1,760)	(2,298)	-	(2,298)
Charge to income statement	-	863	863	-	1,799	1,799
Disposals	(221)	(18)	(239)	-	-	-
Foreign currency translation and other adjustments	15	36	51	58	78	136
Total provision for doubtful debts	1,358	1,760	3,118	1,840	2,178	4,018

	Half Year to Sep 14			Half Year to Mar 14		
	Specific $m	Collective $m	Total $m	Specific $m	Collective $m	Total $m
Opening balance	1,782	2,059	3,841	1,840	2,178	4,018
Transfer to/(from) specific/collective provision	624	(624)	-	675	(675)	-
Bad debts recovered	73	-	73	112	-	112
Bad debts written off	(896)	-	(896)	(864)	-	(864)
Charge to income statement	-	335	335	-	528	528
Disposals	(221)	(18)	(239)	-	-	-
Foreign currency translation and other adjustments	(4)	8	4	19	28	47
Total provision for doubtful debts	1,358	1,760	3,118	1,782	2,059	3,841

Charge to provide for doubtful debts

	Year to		Half Year to	
Total charge for doubtful debts by geographic location	Sep 14 $m	Sep 13 $m	Sep 14 $m	Mar 14 $m
Australia	601	1,046	274	327
Europe	153	632	4	149
New Zealand	68	93	34	34
United States	9	22	6	3
Asia	32	6	17	15
Total charge to provide for doubtful debts excluding investments - held to maturity	863	1,799	335	528
Total charge on investments - held to maturity	(8)	11	(3)	(5)
Total charge to provide for doubtful debts	855	1,810	332	523

9. Asset Quality

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 interest revenue, non-retail loans which are contractually past due 90 days and 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		
Summary of total impaired assets	**30 Sep 14 $m**	**31 Mar 14 $m**	**30 Sep 13 $m**
Impaired assets [(1)]	**3,926**	5,432	6,221
Restructured loans [(2)]	**196**	182	126
Gross total impaired assets [(3)]	**4,122**	5,614	6,347
Specific provision - total impaired assets	**(1,454)**	(1,954)	(2,030)
Net total impaired assets	**2,668**	3,660	4,317

(1) *Impaired assets do not include impaired conduit assets classified as investments - held to maturity of $96 million (March 2014 $213 million, September 2013 $273 million).*

(2) *These loans represent facilities which have been classified as restructured for reasons relating to the financial difficulty of the counterparty. The restructured loans include $7 million of restructured fair value assets (March 2014 $81 million, September 2013 $22 million).*

(3) *Gross impaired assets include $187 million of gross impaired other financial assets at fair value (March 2014 $390 million, September 2013 $533 million).*

Movement in gross impaired assets	**Australia $m**	**Europe $m**	**New Zealand $m**	**United States $m**	**Asia $m**	**Total Group $m**
Balance as at 31 March 2013	3,210	2,457	335	93	7	**6,102**
New	1,384	933	187	27	-	**2,531**
Written-off	(678)	(290)	(76)	(7)	-	**(1,051)**
Returned to performing or repaid	(763)	(808)	(122)	(24)	-	**(1,717)**
Foreign currency translation adjustments	-	433	36	12	1	**482**
Balance as at 30 September 2013	3,153	2,725	360	101	8	**6,347**
New	557	734	141	10	61	**1,503**
Written-off	(338)	(269)	(71)	(10)	-	**(688)**
Returned to performing or repaid	(1,016)	(543)	(76)	(40)	-	**(1,675)**
Foreign currency translation adjustments	-	107	20	1	(1)	**127**
Balance at 31 March 2014	2,356	2,754	374	62	68	**5,614**
New	679	540	151	-	-	**1,370**
Written-off	(411)	(192)	(75)	(2)	(2)	**(682)**
Returned to performing or repaid	(699)	(489)	(185)	(19)	(10)	**(1,402)**
Disposals	-	(844)	-	-	-	**(844)**
Foreign currency translation adjustments	-	78	(16)	1	3	**66**
Gross impaired assets at 30 September 2014	1,925	1,847	249	42	59	**4,122**

Gross impaired assets to gross loans & acceptances - by geographic location	As at 30 Sep 14 %	31 Mar 14 %	30 Sep 13 %
Australia	**0.47**	0.59	0.80
Europe	**3.05**	4.59	4.62
New Zealand	**0.44**	0.64	0.65
United States	**0.45**	0.76	1.30
Asia	**0.61**	0.75	0.11
Total gross impaired assets to gross loans & acceptances	**0.76**	1.05	1.22

Net impaired assets to total equity (parent entity interest) (1)	**5.6**	7.7	9.3
Specific provision to gross impaired assets	**35.3**	34.8	32.0
Collective provision to credit risk-weighted assets (2)	**0.83**	0.91	0.94
Collective provision including GRCL (top-up) to credit risk-weighted assets (2)	**1.08**	1.15	1.16
90+ days past due plus gross impaired assets to gross loans and acceptances	**1.19**	1.52	1.69
Net write-offs to gross loans and acceptances (annualised) (4) (5)	**0.30**	0.30	0.42
Total provision as a percentage of net write-offs (annualised) (3) (4) (5)	**248**	282	227
Total provision to gross loans and acceptances (3)	**0.75**	0.91	0.96

(1) *Net impaired assets include $91 million of net impaired other financial assets at fair value (March 2014 $218 million, September 2013 $344 million).*

(2) *Includes economic cycle adjustment, collective provision against loans at amortised cost and collective provisions held on assets at fair value.*

(3) *Includes economic cycle adjustment, total provision against loans at amortised cost and total provisions held on assets at fair value.*

(4) *Net write-offs restated to include net write-offs of fair value loans.*

(5) *September 2013 and 2014 metrics refer to the full year ratio, the March 2014 metrics refer to the March half year ratio annualised.*

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

Summary of non-impaired loans 90+ days past due	As at 30 Sep 14 $m	31 Mar 14 $m	30 Sep 13 $m
Total non-impaired assets past due 90 days or more with adequate security	**2,082**	2,268	2,217
Total non-impaired portfolio managed facilities past due 90 to 180 days	**260**	258	246
Total non-impaired 90+ days past due loans	**2,342**	2,526	2,463
Total non-impaired 90+ days past due loans to gross loans and acceptances (%)	**0.43**	0.47	0.47

Non-impaired loans 90+ days past due - by geographic location	As at 30 Sep 14 $m	31 Mar 14 $m	30 Sep 13 $m
Australia	**1,692**	1,634	1,707
Europe (1)	**449**	640	491
New Zealand	**186**	236	243
United States	**13**	16	17
Asia	**2**	-	5
Total non-impaired 90+ day past due loans	**2,342**	2,526	2,463

(1) *September 2014 and March 2014 balances include UK mortgage defaulted customers, not previously disclosed as past due, where the contractual repayment date has passed but customers continue to pay interest due, or where an agreed arrangement is in place, or where the customer is deceased, totalling $72 million and $102 million respectively. Current year disclosure reflects changes in Group and regulatory practices. However, September 2013 comparatives have not been restated. The comparative period 90+ days past due balance at September 2013 would have been $604 million.*

10. Deposits and Other Borrowings

	As at 30 Sep 14 $m	31 Mar 14 $m	30 Sep 13 $m
Term deposits [1]	**165,675**	165,420	169,385
On-demand and short-term deposits	**191,333**	184,553	167,458
Certificates of deposit	**67,579**	59,454	62,684
Deposits not bearing interest	**34,060**	31,095	28,917
Total deposits	**458,647**	440,522	428,444
Borrowings [1]	**17,372**	18,842	16,884
Securities sold under agreements to repurchase	**9,443**	11,880	7,551
Fair value adjustment	**(21)**	(12)	228
Total deposits and other borrowings	**485,441**	471,232	453,107
Represented by:			
Total deposits and other borrowings at fair value [2]	**9,233**	8,935	8,065
Total deposits and other borrowings at amortised cost [2]	**476,208**	462,297	445,042
Total deposits and other borrowings	**485,441**	471,232	453,107

(1) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

(2) *Included within the carrying value of other financial liabilities at fair value. These amounts are included in the product and geographical analysis below.*

By product and geographic location	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total Group $m
As at 30 September 2014						
Term deposits	113,117	13,724	23,630	3,601	11,603	**165,675**
On-demand and short-term deposits	136,539	30,558	14,424	9,031	781	**191,333**
Certificates of deposit	37,215	22,723	1,451	6,190	-	**67,579**
Deposits not bearing interest	26,629	3,434	2,420	1,495	82	**34,060**
Total deposits	313,500	70,439	41,925	20,317	12,466	**458,647**
Borrowings	1,425	-	2,983	12,964	-	**17,372**
Securities sold under agreements to repurchase	1,612	1,955	-	5,876	-	**9,443**
Fair value adjustment	-	(20)	(1)	-	-	**(21)**
Total deposits and other borrowings	316,537	72,374	44,907	39,157	12,466	**485,441**
Represented by:						
Total deposits and other borrowings at fair value	-	598	8,635	-	-	**9,233**
Total deposits and other borrowings at amortised cost	316,537	71,776	36,272	39,157	12,466	**476,208**
Total deposits and other borrowings	316,537	72,374	44,907	39,157	12,466	**485,441**

By product and geographic location	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total Group $m
As at 31 March 2014						
Term deposits	114,691	14,305	23,190	3,086	10,148	**165,420**
On-demand and short-term deposits	128,763	29,112	14,797	11,591	290	**184,553**
Certificates of deposit	34,508	17,024	1,968	5,954	-	**59,454**
Deposits not bearing interest	23,991	3,165	2,475	1,381	83	**31,095**
Total deposits	301,953	63,606	42,430	22,012	10,521	**440,522**
Borrowings	346	-	3,139	15,357	-	**18,842**
Securities sold under agreements to repurchase	2,373	3,881	-	5,626	-	**11,880**
Fair value adjustment	-	(21)	8	1	-	**(12)**
Total deposits and other borrowings	304,672	67,466	45,577	42,996	10,521	**471,232**
Represented by:						
Total deposits and other borrowings at fair value	-	561	8,373	1	-	**8,935**
Total deposits and other borrowings at amortised cost	304,672	66,905	37,204	42,995	10,521	**462,297**
Total deposits and other borrowings	304,672	67,466	45,577	42,996	10,521	**471,232**

By product and geographic location	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total Group $m
As at 30 September 2013						
Term deposits [1]	116,351	14,173	22,243	4,076	12,542	**169,385**
On-demand and short-term deposits	120,560	30,081	12,610	3,867	340	**167,458**
Certificates of deposit	29,752	24,565	1,534	6,833	-	**62,684**
Deposits not bearing interest	22,422	2,893	2,302	1,296	4	**28,917**
Total deposits	289,085	71,712	38,689	16,072	12,886	**428,444**
Borrowings [1]	563	-	3,400	12,921	-	**16,884**
Securities sold under agreements to repurchase	2,091	1,500	-	3,960	-	**7,551**
Fair value adjustment	-	221	6	1	-	**228**
Total deposits and other borrowings	291,739	73,433	42,095	32,954	12,886	**453,107**
Represented by:						
Total deposits and other borrowings at fair value	-	933	7,131	1	-	**8,065**
Total deposits and other borrowings at amortised cost [1]	291,739	72,500	34,964	32,953	12,886	**445,042**
Total deposits and other borrowings	291,739	73,433	42,095	32,954	12,886	**453,107**

(1) Restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.

11. Contributed Equity and Reserves

Contributed equity	As at 30 Sep 14 $m	31 Mar 14 $m	30 Sep 13 $m
Issued and paid-up ordinary share capital			
Ordinary shares, fully paid [(1)]	**24,049**	23,617	23,410
Issued and paid-up preference share capital			
BNZ Income Securities 2	**-**	203	203
Other contributed equity			
National Income Securities	**1,945**	1,945	1,945
Trust Preferred Securities	**975**	975	975
Trust Preferred Securities II	**1,014**	1,014	1,014
National Capital Instruments	**397**	397	397
Total contributed equity	**28,380**	28,151	27,944

(1) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

Movements in contributed equity	Year to Sep 14 $m	Year to Sep 13 $m	Half Year to Sep 14 $m	Half Year to Mar 14 $m
Ordinary share capital				
Balance at beginning of period	**23,410**	22,459	**23,617**	23,410
Restated for adoption of new accounting standards	**-**	(187)	**-**	-
Shares issued:				
Dividend reinvestment plan	**677**	843	**368**	309
Exercise of executive share options	**9**	20	**2**	7
Conversion of other debt issues	**-**	500	**-**	-
Transfer from equity-based compensation reserve	**182**	195	**15**	167
Treasury shares adjustment relating to life insurance business [(1)]	**80**	(120)	**47**	33
On market purchase of shares for dividend reinvestment plan neutralisation	**(309)**	(300)	**-**	(309)
Balance at end of period	**24,049**	23,410	**24,049**	23,617

(1) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

Preference share capital	Year to Sep 14 $m	Year to Sep 13 $m	Half Year to Sep 14 $m	Half Year to Mar 14 $m
Balance at beginning of period	**203**	583	**203**	203
Buyback of BNZ Income Securities	**(203)**	(380)	**(203)**	-
Balance at end of period	**-**	203	**-**	203

Reserves	As at 30 Sep 14 $m	31 Mar 14 $m	30 Sep 13 $m
Asset revaluation reserve	**81**	79	79
Foreign currency translation reserve	**(1,936)**	(1,990)	(2,501)
Cash flow hedge reserve	**(55)**	(20)	105
Equity-based compensation reserve	**277**	217	296
General reserve for credit losses	**601**	563	539
Available for sale investments reserve	**166**	191	62
Total reserves	**(866)**	(960)	(1,420)

Movements in reserves	Year to Sep 14 $m	Year to Sep 13 $m	Half Year to Sep 14 $m	Half Year to Mar 14 $m
Asset revaluation reserve				
Balance at beginning of period	**79**	75	**79**	79
Revaluation of land and buildings	**3**	6	**3**	-
Transfer to retained profits	**(2)**	(1)	**(2)**	-
Tax on revaluation adjustments	**1**	(1)	**1**	-
Balance at end of period	**81**	79	**81**	79

Movements in reserves	Year to Sep 14 $m	Year to Sep 13 $m	Half Year to Sep 14 $m	Half Year to Mar 14 $m
Foreign currency translation reserve				
Balance at beginning of period	**(2,501)**	(3,828)	**(1,990)**	(2,501)
Currency translation adjustments	**574**	1,379	**37**	537
Tax on foreign currency translation reserve	**(9)**	(52)	**17**	(26)
Balance at end of period	**(1,936)**	(2,501)	**(1,936)**	(1,990)
Cash flow hedge reserve				
Balance at beginning of period	**105**	446	**(20)**	105
(Losses)/gains on cash flow hedging instruments	**(119)**	(438)	**41**	(160)
(Gains)/losses transferred to the income statement	**(84)**	11	**(90)**	6
Tax on cash flow hedging instruments	**43**	86	**14**	29
Balance at end of period	**(55)**	105	**(55)**	(20)
Equity-based compensation reserve				
Balance at beginning of period	**296**	319	**217**	296
Equity-based compensation	**163**	185	**75**	88
Transfer to contributed equity	**(182)**	(195)	**(15)**	(167)
Transfer of options and rights lapsed to retained earnings	**-**	(13)	**-**	-
Balance at end of period	**277**	296	**277**	217
General reserve for credit losses				
Balance at beginning of period	**539**	592	**563**	539
Transfer from/(to) retained profits	**62**	(53)	**38**	24
Balance at end of period	**601**	539	**601**	563
Available for sale investments reserve				
Balance at beginning of period	**62**	77	**191**	62
Revaluation gains/(losses)	**263**	(18)	**58**	205
Gains from sale transferred to the income statement	**(94)**	(38)	**(59)**	(35)
Impairment transferred to the income statement	**4**	13	**4**	-
Tax on available for sale investments reserve	**(69)**	28	**(28)**	(41)
Balance at end of period	**166**	62	**166**	191
Reconciliation of movement in retained profits				
Balance at beginning of period	**19,793**	18,702	**20,269**	19,793
Restated for adoption of new accounting standards	**-**	9	**-**	-
Actuarial gains/(losses) on defined benefit superannuation plans [1]	**49**	51	**104**	(55)
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	**(44)**	-	**(24)**	(20)
Tax on items taken directly (from)/to equity [1]	**(6)**	(68)	**(24)**	18
Net profit attributable to owners of the Company [1]	**5,295**	5,355	**2,439**	2,856
Transfer (to)/from general reserve for credit losses	**(62)**	53	**(38)**	(24)
Transfer from asset revaluation reserve	**2**	1	**2**	-
Transfer of options and rights lapsed from equity-based compensation reserve	**-**	13	**-**	-
Dividends paid [1]	**(4,470)**	(4,135)	**(2,261)**	(2,209)
Distributions on other equity instruments	**(180)**	(188)	**(90)**	(90)
Balance at end of period	**20,377**	19,793	**20,377**	20,269

(1) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in Note 1, Principal Accounting Policies on page 76.*

12. Notes to the Condensed Cash Flow Statement

(a) Reconciliation of cash and cash equivalents

Cash and cash equivalents comprise the net amount of short-term, highly liquid investments that are readily convertible to known amounts of cash within three months and are subject to an insignificant risk of change in value. They are held for the purposes of meeting short-term cash commitments (rather than for investment or other purposes) and include cash and liquid assets, amounts due from other banks (including securities held under reverse repurchase agreements and short-term government securities), net of amounts due to other banks.

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		
Cash and cash equivalents	**30 Sep 14 $m**	**31 Mar 14 $m**	**30 Sep 13 $m**
Assets			
Cash and liquid assets	**41,034**	38,095	35,666
Treasury and other eligible bills	**885**	179	81
Due from other banks (excluding mandatory deposits with supervisory central banks)	**27,479**	43,282	33,809
Total cash and cash equivalents assets	**69,398**	81,556	69,556
Liabilities			
Due to other banks	**(42,881)**	(43,098)	(32,215)
Total cash and cash equivalents	**26,517**	38,458	37,341

Included within cash and liquid assets are cash and liquid assets within the Group's life insurance business statutory funds of $2,099 million (March 2014 $1,878 million, September 2013: $1,912 million) which are subject to restrictions imposed under the *Life Insurance Act* 1995 (Cth) and other restrictions and therefore are not available for use in operating, investing or financing activities of other parts of the Group.

(b) Non-cash financing and investing transactions

	Year to		Half Year to	
	Sep 14 $m	**Sep 13 $m**	**Sep 14 $m**	**Mar 14 $m**
New share issues				
Dividend reinvestment plan	**677**	843	**368**	309
Debt to equity conversion	**-**	500	**-**	-

13. Contingent Liabilities

(i) Legal proceedings

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) Class actions

On 16 December 2011, Steven Farey and Others commenced a class action proceeding against the Group in relation to the payment of exception fees, along with similar actions against other financial institutions. The quantum of the claim against the Group has not yet been identified in the proceeding. The Group has not been required to file a defence as the proceeding has been stayed until 1 December 2014 pending the resolution of the exception fees class action against ANZ Banking Group Limited (ANZ). The ANZ action was commenced in September 2010 and is effectively a 'test case' for exception fee claims against Australian banks. The proceeding will be vigorously defended.

In March 2013, a potential representative action against New Zealand banks (including, potentially, the Company's subsidiary, Bank of New Zealand (BNZ)) was announced in relation to certain fees. Litigation Lending Services (NZ) Limited is funding the actions. On 20 August 2014, representative proceedings were filed against BNZ. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

(iii) United Kingdom Financial Services Compensation Scheme

The United Kingdom (UK) Financial Services Compensation Scheme (FSCS) provides compensation to depositors in the event that a financial institution is unable to repay amounts due. Following the failure of a number of financial institutions in the UK, claims were triggered against the FSCS, initially to pay interest on borrowings which the FSCS has raised from the UK Government to support the protected deposits.

During 2014, the FSCS also invoiced institutions for the second of three annual levies to cover capital repayments to the UK Government, together with an interim levy to contribute to the costs of resolution in respect of Dunfermline Building Society. The principal of these borrowings, which remains after the three annual levies have been paid, is anticipated to be repaid from the realisation of the assets of the defaulted institutions. The FSCS has however confirmed that the size of the future levies will be kept under review in light of developments from the insolvent estates.

The FSCS has estimated levies due to 31 March 2015 and an accrual of \$13 million (£7 million) is held for the Group's calculated liability to that date. The ultimate FSCS levy as a result of the failures is uncertain.

(iv) Claims for potential mis-selling of payment protection insurance

In common with the wider UK retail banking sector, Clydesdale Bank plc (Clydesdale) continues to deal with complaints and redress issues arising out of historic sales of payment protection insurance (PPI). Clydesdale remains in regular dialogue with the Financial Conduct Authority (FCA) regarding its approach to dealing with these issues and is subject to an enforcement process with the FCA in relation to its previous PPI complaints handling processes, the outcome of which is not yet known. As announced on 9 October 2014, the Group has determined that an additional provision is required as a result of various developments, including the implementation of a revised complaints handling process which has resulted in increased operational and administrative costs; higher than expected levels of new complaints; increased redress payments in respect of new complaints; costs associated with the ongoing enforcement process and additional operational and redress costs likely to be incurred as a result of reviewing previously handled complaints. At 30 September 2014, a provision of \$957 million (£515 million) is held for this matter.

The provision is based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement. There remain risks and uncertainties in relation to these assumptions and consequently in relation to ultimate costs of redress and related costs, including the number of PPI claims (including the extent to which this is influenced by the activity of claims management companies), the number of those claims that ultimately will be upheld, the amount that will be paid in respect of those claims, any requirements to undertake further proactive customer contact, any additional amounts that may need to be paid in respect to previously handled claims and the outcome of the FCA enforcement process, including the possibility of fines. These factors mean that the eventual costs of PPI redress and complaint handling may therefore differ materially from that estimated and further provision could be required. Accordingly, the final amount required to settle the Group's potential PPI liabilities remains uncertain.

The Group will continue to reassess the adequacy of the provision for this matter and the assumptions underlying the provision calculation based upon experience and other relevant factors as matters develop.

(v) Review of sales of certain interest rate hedging products

On 29 June 2012 the UK Financial Services Authority (FSA) announced that it had reached agreement with a number of UK banks in relation to a review and redress exercise on sales of certain interest rate hedging products to small and medium businesses. Clydesdale agreed to participate in this exercise, as announced by the FSA on 23 July 2012, and has embarked on a program to identify small and medium sized customers that may have been affected and where due, pay financial redress. The exercise incorporates certain of the Group's tailored business loan (TBLs) products as well as the standalone hedging products identified in the FSA's notice. Clydesdale is also dealing with a number of claims by customers in relation to certain TBLs not currently in scope of the review.

The Group has determined that an additional provision is required, based on a number of factors relating to offers of redress, compensation, offers of alternative products and administrative costs for interest rate hedging products and in-scope TBLs, and the receipt and review of complaints on certain fixed rate TBLs. The extent of future complaints on TBLs is uncertain and further provision could be required. A provision of $672 million (£362 million) is held for these matters.

The Group will continue to reassess the adequacy of the provision for this matter and the assumptions underlying the provision calculation based upon experience and other relevant factors as matters develop.

(vi) Other UK conduct related matters

Since 1 April 2013, Clydesdale has been regulated by the FCA and the Prudential Regulation Authority (PRA). The FCA is a proactive regulator focused on conduct issues, and this may impact upon the manner in which the Group's UK operations deal with, and the ultimate extent of, conduct related customer redress and associated costs. The current provision held in respect of UK conduct related matters, other than payment protection insurance and interest rate hedging products (including out-of-scope TBLs), is $91 million (£49 million). The total cost associated with these and other conduct related matters is uncertain.

14. Events Subsequent to Reporting Date

On 15 October 2014, an initial public offering was undertaken in respect of Great Western Bancorp, Inc., a US based subsidiary of the Group. The total offer comprised of 18.4 million shares or 31.8% of the outstanding common stock at a price of US$18 a share. Gross proceeds realised by NAB were US$331 million. A change in ownership without loss of control is treated as an equity transaction and as a result does not impact the income statement. The impact to the Group's Common Equity Tier 1 capital ratio remains subject to APRA's determination.

Other than the matter referred to above, no other matter, item, transaction or event of a material or unusual nature has arisen in the interval between end of the reporting period (30 September 2014) and the date of this report that, in the opinion of the directors, has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

Compliance Statement

The preliminary final report for the year ended 30 September 2014 is prepared:

- in accordance with the ASX Listing Rules
- in accordance with the recognition and measurement requirements of applicable Australian Accounting Standards and
- based on the financial statements of the Group, which are in the process of being audited.

This report should be read in conjunction with any announcements to the market made by the Group during the period.

Louise Thomson
Company Secretary
30 October 2014

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Section 6

Supplementary Information

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1. Net Interest Margins and Spreads

	Year to			Half Year to		
Group	**Sep 14 %**	**Sep 13 %**	**Sep 14 v Sep 13**	**Sep 14 %**	**Mar 14 %**	**Sep 14 v Mar 14**
Net interest spread [1]	**1.64**	1.69	(5 bps)	**1.64**	1.65	(1 bps)
Benefit of net free liabilities, provisions and equity	**0.29**	0.33	(4 bps)	**0.29**	0.29	-
Net interest margin - statutory basis [2]	**1.93**	2.02	(9 bps)	**1.93**	1.94	(1 bps)

(1) *Net interest spread represents the difference between the average interest rate earned and the average interest rate incurred on funds.*

(2) *Net interest margin (NIM) is net interest income as a percentage of average interest earning assets.*

Year ended September 2014 v Year ended September 2013

	Impact of		
Contribution to Group Margin	**Change in NIM [3] [4]**	**Change in Mix [5]**	**Impact on Group NIM**
Australian Banking	(6 bps)	-	**(6 bps)**
NZ Banking	-	-	**-**
UK Banking	1 bps	-	**1 bps**
NAB UK Commercial Real Estate	-	-	**-**
Other [1]	2 bps	(1 bps)	**1 bps**
Group (excluding Liquid Assets, and Markets & Treasury)	(3 bps)	(1 bps)	**(4 bps)**
Total Liquid Assets and Marketable Securities [2]	-	(3 bps)	**(3 bps)**
Markets & Treasury	1 bps	(3 bps)	**(2 bps)**
Total Group - cash earnings basis	(2 bps)	(7 bps)	**(9 bps)**
NAB Wealth net interest income	-	-	**-**
Group - statutory basis	(2 bps)	(7 bps)	**(9 bps)**

(1) *Includes Great Western Bank, Specialised Group Assets, other supporting units and eliminations.*

(2) *Liquid Assets and Marketable Securities volume impact only.*

(3) *The increase/(decrease) in net interest margin assuming no change in mix of average interest earning assets (AIEA).*

(4) *Impact of Change in NIM represents the effect of each division's NIM movement on the Group's NIM. These amounts do not reflect each individual division's NIM movement.*

(5) *The increase/(decrease) in net interest margin caused by changes in divisional mix of AIEA.*

Half year ended September 2014 v Half year ended March 2014

	Impact of		
Contribution to Group Margin	**Change in NIM [3] [4]**	**Change in Mix [5]**	**Impact on Group NIM**
Australian Banking	(2 bps)	-	**(2 bps)**
NZ Banking	-	-	**-**
UK Banking	-	-	**-**
NAB UK Commercial Real Estate	-	-	**-**
Other [1]	-	1 bps	**1 bps**
Group (excluding Liquid Assets, and Markets & Treasury)	(2 bps)	1 bps	**(1 bps)**
Total Liquid Assets and Marketable Securities [2]	-	-	**-**
Markets & Treasury	2 bps	(2 bps)	**-**
Total Group - cash earnings basis	-	(1 bps)	**(1 bps)**
NAB Wealth net interest income	-	-	**-**
Group - statutory basis	-	(1 bps)	**(1 bps)**

(1) *Includes Great Western Bank, Specialised Group Assets, other supporting units and eliminations.*

(2) *Liquid Asset and Marketable Securities volume impact only.*

(3) *The increase/(decrease) in net interest margin assuming no change in mix of average interest earning assets (AIEA).*

(4) *Impact of Change in NIM represents the effect of each division's NIM Movement on the Group's NIM. These amounts do not reflect each individual division's NIM movement.*

(5) *The increase/(decrease) in net interest margin caused by changes in divisional mix of AIEA.*

2. Loans and Advances by Industry and Geography

As at 30 September 2014	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total $m
Real estate - mortgage	247,312	34,257	27,298	851	2,321	**312,039**
Other commercial and industrial	52,284	8,735	6,694	4,475	4,021	**76,209**
Commercial property services	48,527	2,673	6,611	8	371	**58,190**
Agriculture, forestry, fishing and mining	19,729	3,142	11,419	1,915	40	**36,245**
Financial, investment and insurance	9,893	2,761	946	1,328	1,913	**16,841**
Asset and lease financing	10,463	1,255	7	-	4	**11,729**
Instalment loans to individuals and other personal lending (including credit cards)	9,132	3,181	1,452	89	-	**13,854**
Manufacturing	7,256	1,393	2,388	(1)	967	**12,003**
Real estate - construction	1,535	3,009	741	405	-	**5,690**
Government and public authorities	2,134	104	127	196	-	**2,561**
Gross loans and advances including acceptances [1]	408,265	60,510	57,683	9,266	9,637	**545,361**
Deduct:						
Unearned income and deferred net fee income	(954)	(137)	17	(13)	(26)	**(1,113)**
Provisions for doubtful debts	(1,715)	(1,092)	(218)	(53)	(40)	**(3,118)**
Total net loans and advances including acceptances	405,596	59,281	57,482	9,200	9,571	**541,130**

(1) *Includes loans at fair value.*

As at 31 March 2014	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total $m
Real estate - mortgage	238,822	30,800	27,949	798	2,258	**300,627**
Other commercial and industrial	50,683	9,224	6,649	4,150	3,451	**74,157**
Commercial property services	46,599	3,723	7,151	14	381	**57,868**
Agriculture, forestry, fishing and mining	18,797	3,071	11,621	1,835	14	**35,338**
Financial, investment and insurance	11,820	2,916	825	892	2,159	**18,612**
Asset and lease financing	10,881	1,669	8	-	5	**12,563**
Instalment loans to individuals and other personal lending (including credit cards)	9,080	3,244	1,677	82	-	**14,083**
Manufacturing	7,137	1,216	2,416	-	855	**11,624**
Real estate - construction	1,668	4,049	758	208	-	**6,683**
Government and public authorities	2,174	104	178	161	-	**2,617**
Gross loans and advances including acceptances [1]	397,661	60,016	59,232	8,140	9,123	**534,172**
Deduct:						
Unearned income and deferred net fee income	(986)	(150)	(4)	(11)	(30)	**(1,181)**
Provisions for doubtful debts	(1,994)	(1,513)	(260)	(51)	(23)	**(3,841)**
Total net loans and advances including acceptances	394,681	58,353	58,968	8,078	9,070	**529,150**

(1) *Includes loans at fair value.*

As at 30 September 2013	Australia $m	Europe $m	New Zealand $m	United States $m	Asia $m	Total $m
Real estate - mortgage	232,251	28,016	26,213	758	2,125	**289,363**
Other commercial and industrial	51,162	9,257	6,368	3,968	2,337	**73,092**
Commercial property services	46,301	4,104	6,643	15	333	**57,396**
Agriculture, forestry, fishing and mining	19,494	3,133	10,980	1,695	12	**35,314**
Financial, investment and insurance [1]	11,945	3,043	642	778	1,620	**18,028**
Asset and lease financing	11,293	1,761	10	-	5	**13,069**
Instalment loans to individuals and other personal lending (including credit cards)	9,051	3,305	1,550	82	1	**13,989**
Manufacturing	7,259	1,388	2,236	-	830	**11,713**
Real estate - construction	1,696	4,894	679	368	1	**7,638**
Government and public authorities	2,106	62	177	132	-	**2,477**
Gross loans and advances including acceptances [2]	392,558	58,963	55,498	7,796	7,264	**522,079**
Deduct:						
Unearned income and deferred net fee income	(1,196)	(187)	(11)	(11)	(24)	**(1,429)**
Provisions for doubtful debts	(2,164)	(1,529)	(250)	(56)	(19)	**(4,018)**
Total net loans and advances including acceptances	389,198	57,247	55,237	7,729	7,221	**516,632**

(1) *Restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

(2) *Includes loans at fair value.*

3. Average Balance Sheet and Related Interest

The following tables set forth the major categories of interest earning assets and interest bearing liabilities, together with their respective interest rates earned or 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 New Zealand, the United States and Asia. Impaired assets are included within loans and advances in interest earning assets.

Average assets and interest income

	Year ended Sep 14			Year ended Sep 13		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Average interest earning assets						
Due from other banks						
Australia	11,343	211	1.9	10,567	243	2.3
Europe	24,934	167	0.7	28,091	152	0.5
Other International	21,596	114	0.5	17,714	84	0.5
Marketable debt securities [1]						
Australia	57,588	1,999	3.5	45,121	1,720	3.8
Europe	8,829	127	1.4	10,149	144	1.4
Other International	12,990	260	2.0	11,533	199	1.7
Loans and advances - housing						
Australia	238,710	11,409	4.8	225,796	11,914	5.3
Europe	30,878	1,040	3.4	24,611	833	3.4
Other International	30,396	1,606	5.3	26,321	1,384	5.3
Loans and advances - non-housing [1]						
Australia	159,083	9,770	6.1	160,024	10,691	6.7
Europe	28,563	1,241	4.3	31,384	1,361	4.3
Other International	44,887	2,289	5.1	37,051	1,979	5.3
Other interest earning assets						
Australia	9,728	347	n/a	5,921	433	n/a
Europe	21,514	117	n/a	19,174	82	n/a
Other International	10,555	81	n/a	8,168	70	n/a
Total average interest earning assets and interest income by:						
Australia	476,452	23,736	5.0	447,429	25,001	5.6
Europe	114,718	2,692	2.3	113,409	2,572	2.3
Other International	120,424	4,350	3.6	100,787	3,716	3.7
Total average interest earning assets and interest income	711,594	30,778	4.3	661,625	31,289	4.7
Average non-interest earning assets						
Investments relating to life insurance business [1][2]						
Australia	81,797			72,409		
Other International	63			51		
Other assets [1]	72,126			72,472		
Total average non-interest earning assets	153,986			144,932		
Provision for doubtful debts						
Australia	(1,956)			(2,448)		
Europe	(1,312)			(1,265)		
Other International	(328)			(325)		
Total average assets	861,984			802,519		

[1] *Prior period has been restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

[2] *Included within investments relating to life insurance business are interest earning debt securities. The interest earned from these securities is reported in life insurance income, and has therefore been treated as non-interest earning for the purposes of this note.*

Average liabilities and interest expense

	Year ended Sep 14			Year ended Sep 13		
	Average balance $m	**Interest $m**	**Average rate %**	**Average balance $m**	**Interest $m**	**Average rate %**
Average interest bearing liabilities						
Due to other banks						
Australia	**26,195**	**610**	**2.3**	20,770	512	2.5
Europe	**11,890**	**31**	**0.3**	10,124	29	0.3
Other International	**4,752**	**67**	**1.4**	3,455	52	1.5
On-demand and short-term deposits						
Australia	**129,639**	**3,077**	**2.4**	112,499	3,005	2.7
Europe [(1)]	**28,878**	**83**	**0.3**	23,483	73	0.3
Other International	**29,804**	**366**	**1.2**	23,171	289	1.2
Certificates of deposit						
Australia	**34,925**	**922**	**2.6**	29,760	912	3.1
Europe	**22,336**	**60**	**0.3**	27,682	84	0.3
Other International	**8,518**	**83**	**1.0**	11,944	99	0.8
Term deposits [(2)]						
Australia	**114,434**	**4,268**	**3.7**	115,190	5,117	4.4
Europe [(1)]	**15,745**	**320**	**2.0**	18,228	427	2.3
Other International	**37,608**	**1,106**	**2.9**	35,712	967	2.7
Other borrowings [(2)]						
Australia	**2,594**	**57**	**2.2**	2,196	66	3.0
Europe	**7,076**	**38**	**0.5**	6,972	27	0.4
Other International	**26,394**	**43**	**0.2**	24,567	59	0.2
Bonds, notes and subordinated debt [(2)]						
Australia	**101,775**	**4,362**	**4.3**	93,749	4,852	5.2
Europe	**5,905**	**146**	**2.5**	4,855	118	2.4
Other International	**21,595**	**568**	**2.6**	16,908	470	2.8
Other interest bearing liabilities						
Australia	**3,283**	**443**	**n/a**	6,347	485	n/a
Europe	**570**	**28**	**n/a**	865	19	n/a
Other International	**1,682**	**361**	**n/a**	1,606	276	n/a
Total average interest bearing liabilities and interest expense by:						
Australia	**412,845**	**13,739**	**3.3**	380,511	14,949	3.9
Europe	**92,400**	**706**	**0.8**	92,209	777	0.8
Other International	**130,353**	**2,594**	**2.0**	117,363	2,212	1.9
Total average interest bearing liabilities and interest expense	**635,598**	**17,039**	**2.7**	590,083	17,938	3.0

(1) *Prior period has been restated for a reclassification from on-demand and short-term deposits to term deposits.*

(2) *Prior period has been restated for the impact of new accounting standards as detailed in the Principal Accounting Policies on page 76.*

Average liabilities and equity

	Year ended	
	Sep 14 $m	**Sep 13 $m**
Average non-interest bearing liabilities		
Deposits not bearing interest		
Australia	**24,271**	20,760
Europe	**3,245**	2,700
Other International	**3,749**	3,306
Life insurance policy liabilities		
Australia	**68,197**	59,576
Other International	**-**	2
Other liabilities [(1)]	**80,105**	81,826
Total average non-interest bearing liabilities	**179,567**	168,170
Total average liabilities	**815,165**	758,253
Average equity		
Contributed equity [(1)]	**28,038**	27,626
Reserves	**(995)**	(2,137)
Retained profits [(1)]	**19,758**	18,726
Parent entity interest	**46,801**	44,215
Non-controlling interest in controlled entities	**18**	51
Total average equity	**46,819**	44,266
Total average liabilities and equity	**861,984**	802,519

(1) *Prior period has been restated for the impact of new accounting standards as detailed in the Principal Accounting Policies on page 76.*

Average assets and interest income

	Half Year ended Sep 14			Half Year ended Mar 14		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Average interest earning assets						
Due from other banks						
Australia	**10,977**	**103**	**1.9**	11,711	108	1.8
Europe	**24,130**	**84**	**0.7**	25,742	83	0.6
Other International	**21,790**	**65**	**0.6**	21,403	49	0.5
Marketable debt securities						
Australia	**60,292**	**978**	**3.2**	54,869	1,021	3.7
Europe	**9,281**	**62**	**1.3**	8,373	65	1.6
Other International	**12,174**	**125**	**2.0**	13,811	135	2.0
Loans and advances - housing						
Australia	**242,313**	**5,776**	**4.8**	235,087	5,633	4.8
Europe	**31,884**	**539**	**3.4**	29,866	501	3.4
Other International	**30,769**	**830**	**5.4**	30,022	776	5.2
Loans and advances - non-housing						
Australia	**158,691**	**4,896**	**6.2**	159,477	4,874	6.1
Europe	**26,916**	**589**	**4.4**	30,218	652	4.3
Other International	**45,762**	**1,185**	**5.2**	44,006	1,104	5.0
Other interest earning assets						
Australia	**10,095**	**176**	**n/a**	9,358	171	n/a
Europe	**20,473**	**58**	**n/a**	22,561	59	n/a
Other International	**10,446**	**43**	**n/a**	10,666	38	n/a
Total average interest earning assets and interest income by:						
Australia	**482,368**	**11,929**	**4.9**	470,502	11,807	5.0
Europe	**112,684**	**1,332**	**2.4**	116,760	1,360	2.3
Other International	**120,941**	**2,248**	**3.7**	119,908	2,102	3.5
Total average interest earning assets and interest income	**715,993**	**15,509**	**4.3**	707,170	15,269	4.3
Average non-interest earning assets						
Investments relating to life insurance business [(1)]						
Australia	**83,847**			79,735		
Other International	**62**			64		
Other assets	**73,282**			70,961		
Total average non-interest earning assets	**157,191**			150,760		
Provision for doubtful debts						
Australia	**(1,836)**			(2,078)		
Europe	**(1,103)**			(1,522)		
Other International	**(322)**			(333)		
Total average assets	**869,923**			853,997		

(1) *Included within investments relating to life insurance business are interest earning debt securities. The interest earned from these securities is reported in life insurance income, and has therefore been treated as non-interest earning for the purposes of this note.*

Average liabilities and interest expense

	Half Year ended Sep 14			Half Year ended Mar 14		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Average interest bearing liabilities						
Due to other banks						
Australia	**26,398**	**316**	**2.4**	25,991	294	2.3
Europe	**12,305**	**16**	**0.3**	11,473	15	0.3
Other International	**4,903**	**35**	**1.4**	4,600	32	1.4
On-demand and short-term deposits						
Australia	**134,451**	**1,594**	**2.4**	124,801	1,483	2.4
Europe	**29,600**	**42**	**0.3**	28,153	41	0.3
Other International	**30,393**	**201**	**1.3**	29,212	165	1.1
Certificates of deposit						
Australia	**35,869**	**479**	**2.7**	33,975	443	2.6
Europe	**20,029**	**27**	**0.3**	24,657	33	0.3
Other International	**8,574**	**43**	**1.0**	8,461	40	0.9
Term deposits						
Australia	**112,463**	**2,053**	**3.6**	116,415	2,215	3.8
Europe	**14,648**	**150**	**2.0**	16,847	170	2.0
Other International	**37,617**	**571**	**3.0**	37,599	535	2.9
Other borrowings						
Australia	**2,774**	**29**	**2.1**	2,412	28	2.3
Europe	**6,404**	**19**	**0.6**	7,752	19	0.5
Other International	**27,815**	**22**	**0.2**	24,965	21	0.2
Bonds, notes and subordinated debt						
Australia	**102,583**	**2,140**	**4.2**	100,962	2,222	4.4
Europe	**6,322**	**73**	**2.3**	5,485	73	2.7
Other International	**21,396**	**282**	**2.6**	21,794	286	2.6
Other interest bearing liabilities						
Australia	**3,262**	**276**	**n/a**	3,305	167	n/a
Europe	**425**	**24**	**n/a**	715	4	n/a
Other International	**1,713**	**202**	**n/a**	1,651	159	n/a
Total average interest bearing liabilities and interest expense by:						
Australia	**417,800**	**6,887**	**3.3**	407,861	6,852	3.4
Europe	**89,733**	**351**	**0.8**	95,082	355	0.7
Other International	**132,411**	**1,356**	**2.0**	128,282	1,238	1.9
Total average interest bearing liabilities and interest expense	**639,944**	**8,594**	**2.7**	631,225	8,445	2.7

Average liabilities and equity

	Half year ended	
	Sep 14 $m	**Mar 14 $m**
Average non-interest bearing liabilities		
Deposits not bearing interest		
Australia	**25,198**	23,340
Europe	**3,348**	3,141
Other International	**3,771**	3,727
Life insurance policy liabilities		
Australia	**70,197**	66,185
Other International	**-**	1
Other liabilities	**80,008**	80,088
Total average non-interest bearing liabilities	**182,522**	176,482
Total average liabilities	**822,466**	807,707
Average equity		
Contributed equity	**28,124**	27,950
Reserves	**(938)**	(1,034)
Retained profits	**20,253**	19,356
Parent entity interest	**47,439**	46,272
Non-controlling interest in controlled entities	**18**	18
Total average equity	**47,457**	46,290
Total average liabilities and equity	**869,923**	853,997

4. Capital Adequacy - Basel III

The APRA Basel III capital standards have been in effect since 1 January 2013. Under APRA's Prudential Standards, Wealth 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 Wealth Management entities is deducted from Common Equity Tier 1 (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 Wealth Management entities are separately regulated and need to meet APRA's prudential standards. The Group conservatively manages the Wealth Management capital adequacy and solvency position separately from the banking business, with a capital buffer in excess of minimum regulatory requirements.

	As at		
Reconciliation to shareholders' funds	**30 Sep 14 $m**	**31 Mar 14 $m**	**30 Sep 13 [(1)] $m**
Contributed equity	**28,380**	28,151	28,139
Reserves	**(866)**	(960)	(1,420)
Retained profits	**20,377**	20,269	19,842
Non-controlling interest in controlled entities	**17**	18	59
Total equity per balance sheet	**47,908**	47,478	46,620
Equity-accounted Additional Tier 1 capital before application of Basel III transitional arrangements	**(4,331)**	(4,535)	(4,535)
Non-controlling interest in controlled entities	**(17)**	(18)	(59)
Treasury shares	**1,570**	1,790	1,528
Eligible deferred fee income	**-**	39	93
General reserve for credit losses	**(601)**	(563)	(539)
Deconsolidation of Wealth Management equity	**(203)**	(376)	(412)
Common Equity Tier 1 Capital before regulatory adjustments	**44,326**	43,815	42,696
Banking goodwill and other intangibles	**(1,374)**	(1,346)	(1,353)
Wealth Management goodwill and other intangibles	**(4,081)**	(4,108)	(4,119)
Investment in non-consolidated controlled entities (net of intangible component)	**(1,879)**	(1,843)	(1,826)
DTA in excess of DTL	**(1,743)**	(1,547)	(1,637)
Capitalised expenses	**(139)**	(161)	(117)
Capitalised software (excluding Wealth Management)	**(2,073)**	(2,170)	(1,953)
Defined benefit pension scheme surplus	**(112)**	(19)	(19)
Change in own creditworthiness	**253**	188	188
Cash flow hedge reserve	**49**	10	(120)
Equity exposures	**(585)**	(642)	(510)
Expected loss in excess of eligible provisions	**(337)**	(421)	(668)
Other [(2)]	**(591)**	(20)	(31)
Common Equity Tier 1 Capital	**31,714**	31,736	30,531
Transitional Additional Tier 1 Capital instruments	**4,845**	4,845	5,450
Basel III eligible Additional Tier 1 Capital instruments	**3,199**	3,196	1,496
Eligible Additional Tier 1 Capital for non-controlling interest	**-**	-	3
Regulatory adjustments to Additional Tier 1 Capital	**-**	(3)	-
Additional Tier 1 Capital	**8,044**	8,038	6,949
Tier 1 Capital	**39,758**	39,774	37,480
Collective provision for doubtful debts - Standardised approach	**548**	554	565
IRB approach surplus provisions on non-defaulted exposures	**-**	45	129
Transitional Tier 2 Capital instruments	**4,498**	4,498	4,776
Eligible Tier 2 Capital for non-controlling interest	**-**	-	1
Regulatory adjustments to Tier 2 Capital	**(83)**	(192)	(218)
Tier 2 Capital	**4,963**	4,905	5,253
Total Capital	**44,721**	44,679	42,733
Risk-weighted assets			
Credit risk	**318,374**	318,339	314,674
Market risk	**4,923**	5,791	5,191
Operational risk	**36,534**	36,280	34,749
Interest rate risk in the banking book	**7,821**	6,814	7,464
Total risk-weighted assets	**367,652**	367,224	362,078
Risk-based regulatory capital ratios			
Common Equity Tier 1	**8.63%**	8.64%	8.43%
Tier 1	**10.81%**	10.83%	10.35%
Total Capital	**12.16%**	12.17%	11.80%

(1) *September 2013 has not been restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

(2) *Other includes additional regulatory methodology changes.*

	Risk-Weighted Assets as at			Exposures as at		
	30 Sep 14 $m	**31 Mar 14 $m**	**30 Sep 13 $m**	**30 Sep 14 $m**	**31 Mar 14 $m**	**30 Sep 13 $m**
Credit risk [1]						
IRB approach						
Corporate (including SME) [2]	**111,078**	106,555	105,115	**234,372**	225,909	211,440
Sovereign	**1,608**	1,690	1,452	**65,322**	62,204	43,846
Bank	**11,341**	12,998	11,785	**66,908**	71,436	60,092
Residential Mortgage	**58,274**	60,301	59,527	**317,400**	307,538	298,529
Qualifying revolving retail	**3,641**	3,649	3,725	**10,882**	11,167	11,095
Retail SME	**6,165**	6,476	6,731	**16,194**	16,603	16,876
Other retail	**3,255**	3,467	3,343	**4,522**	4,748	4,547
Total IRB approach	**195,362**	195,136	191,678	**715,600**	699,605	646,425
Specialised lending (SL)	**52,542**	52,514	53,193	**62,138**	62,918	65,211
Standardised approach						
Australian and foreign governments	**86**	68	66	**12,304**	2,955	4,071
Bank	**107**	156	265	**1,650**	12,701	10,458
Residential mortgage	**18,773**	18,790	17,463	**44,423**	42,116	38,023
Corporate	**25,451**	23,971	23,973	**67,745**	49,973	45,928
Other	**3,298**	3,172	3,206	**3,870**	3,728	3,744
Total standardised approach	**47,715**	46,157	44,973	**129,992**	111,473	102,224
Other						
Securitisation	**4,210**	5,868	7,018	**16,990**	17,245	18,690
Credit value adjustments	**10,340**	10,221	10,035	**-**	-	-
Central counterparty default fund contribution guarantee	**344**	220	263	**-**	-	-
Other [3]	**7,861**	8,223	7,514	**10,182**	9,968	9,127
Total other	**22,755**	24,532	24,830	**27,172**	27,213	27,817
Total credit risk	**318,374**	318,339	314,674	**934,902**	901,209	841,677
Market risk	**4,923**	5,791	5,191			
Operational risk	**36,534**	36,280	34,749			
Interest rate risk in the banking book	**7,821**	6,814	7,464			
Total risk-weighted assets & exposures	**367,652**	367,224	362,078			

(1) *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.*

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

(3) *Other includes non-lending asset exposures and, from September 2013, an RBNZ overlay adjustment required to maintain a minimum risk profile of the NZ Agri portfolio.*

5. Earnings Per Share

	Year to			
	Sep 14		Sep 13	
Earnings Per Share	**Basic**	**Diluted**	**Basic**	**Diluted**
Earnings ($m)				
Net profit attributable to owners of the Company (1)	**5,295**	**5,295**	5,355	5,355
Distributions on other equity instruments	**(192)**	**(192)**	(215)	(215)
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	**-**	**-**	-	6
Interest expense on convertible preference shares	**-**	**124**	-	36
Adjusted earnings	**5,103**	**5,227**	5,140	5,182
Weighted average ordinary shares (no. '000)				
Weighted average ordinary shares (net of treasury shares) (1)	**2,297,139**	**2,297,139**	2,275,030	2,275,030
Potential dilutive weighted average ordinary shares				
Performance options and performance rights	**-**	**6,799**	-	5,676
Partly paid ordinary shares	**-**	**49**	-	60
Employee share plans	**-**	**4,480**	-	5,274
Convertible notes	**-**	**-**	-	3,550
Convertible preference shares	**-**	**85,803**	-	23,978
Total weighted average ordinary shares	**2,297,139**	**2,394,270**	2,275,030	2,313,568
Earnings per share (cents)	**222.1**	**218.3**	225.9	224.0

(1) *Prior period has been restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

	Half Year to			
	Sep 14		Mar 14	
Earnings Per Share	**Basic**	**Diluted**	**Basic**	**Diluted**
Earnings ($m)				
Net profit attributable to owners of the Company	**2,439**	**2,439**	2,856	2,856
Distributions on other equity instruments	**(94)**	**(94)**	(98)	(98)
Potential dilutive adjustments (after tax)				
Interest expense on convertible preference shares	**-**	**70**	-	54
Adjusted earnings	**2,345**	**2,415**	2,758	2,812
Weighted average ordinary shares (no. '000)				
Weighted average ordinary shares (net of treasury shares)	**2,303,383**	**2,303,383**	2,290,451	2,290,451
Potential dilutive weighted average ordinary shares				
Performance options and performance rights	**-**	**6,293**	-	6,865
Partly paid ordinary shares	**-**	**49**	-	49
Employee share plans	**-**	**4,480**	-	4,752
Convertible preference shares	**-**	**96,636**	-	72,525
Total weighted average ordinary shares	**2,303,383**	**2,410,841**	2,290,451	2,374,642
Earnings per share (cents)	**101.8**	**100.2**	120.4	118.4

	Year to			
	Sep 14		Sep 13	
Cash Earnings Per Share	**Basic**	**Diluted**	**Basic**	**Diluted**
Earnings ($m)				
Cash earnings [(1)(2)]	**5,184**	**5,184**	5,747	5,747
Distributions on other equity instruments	**(12)**	**(12)**	(27)	(27)
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	**-**	**-**	-	6
Interest expense on convertible preference shares	**-**	**124**	-	36
Adjusted cash earnings	**5,172**	**5,296**	5,720	5,762
Weighted average ordinary shares (no. '000)				
Weighted average ordinary shares	**2,354,470**	**2,354,470**	2,335,903	2,335,903
Potential dilutive weighted average ordinary shares				
Performance options and performance rights	**-**	**6,799**	-	5,676
Partly paid ordinary shares	**-**	**49**	-	60
Employee share plans	**-**	**4,480**	-	5,274
Convertible notes	**-**	**-**	-	3,550
Convertible preference shares	**-**	**85,803**	-	23,978
Total weighted average ordinary shares	**2,354,470**	**2,451,601**	2,335,903	2,374,441
Cash earnings per share (cents)	**219.7**	**216.0**	244.9	242.7

(1) *Refer to Profit Reconciliation section for reconciliation of cash earnings to net profit attributable to owners of the Company.*

(2) *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes, and for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

	Half Year to			
	Sep 14		Mar 14	
Cash Earnings Per Share	**Basic**	**Diluted**	**Basic**	**Diluted**
Earnings ($m)				
Cash earnings [(1)]	**2,034**	**2,034**	3,150	3,150
Distributions on other equity instruments	**(4)**	**(4)**	(8)	(8)
Potential dilutive adjustments (after tax)				
Interest expense on convertible preference shares	**-**	**70**	-	54
Adjusted cash earnings	**2,030**	**2,100**	3,142	3,196
Weighted average ordinary shares (no. '000)				
Weighted average ordinary shares	**2,359,336**	**2,359,336**	2,349,304	2,349,304
Potential dilutive weighted average ordinary shares				
Performance options and performance rights	**-**	**6,293**	-	6,865
Partly paid ordinary shares	**-**	**49**	-	49
Employee share plans	**-**	**4,480**	-	4,752
Convertible preference shares	**-**	**96,636**	-	72,525
Total weighted average ordinary shares	**2,359,336**	**2,466,794**	2,349,304	2,433,495
Cash earnings per share (cents)	**86.0**	**85.1**	133.7	131.3

(1) *Refer to Profit Reconciliation section for reconciliation of cash earnings to net profit attributable to owners of the Company.*

6. Net Tangible Assets

	As at		
	30 Sep 14	**31 Mar 14**	**30 Sep 13**
Net tangible assets per ordinary share ($) [(1)(2)]	**15.15**	14.91	14.53

(1) *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 year.*

(2) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

7. Asset Funding

Core assets	As at Sep 14 $m	Mar 14 $m	Sep 13 $m	Sep 14 vs Sep 13 %	Sep 14 vs Mar 14 %
Gross loans and advances [1]	**438,956**	428,733	417,748	5.1	2.4
Loans at fair value	**82,968**	79,522	75,012	10.6	4.3
Other financial assets at fair value	**-**	21	28	large	large
Due from customers on acceptances	**23,437**	25,917	29,319	(20.1)	(9.6)
Investments held to maturity [1]	**2,919**	3,708	4,758	(38.7)	(21.3)
Total core assets	**548,280**	537,901	526,865	4.1	1.9
Customer deposits					
On-demand and short-term deposits	**191,073**	184,264	167,193	14.3	3.7
Term deposits [1]	**161,116**	161,869	166,748	(3.4)	(0.5)
Deposits not bearing interest	**34,060**	31,095	28,917	17.8	9.5
Customer deposits at fair value	**4,805**	3,826	3,130	53.5	25.6
Total customer deposits	**391,054**	381,054	365,988	6.8	2.6
Wholesale funding					
Bonds, notes and subordinated debt [1]	**118,165**	115,779	110,717	6.7	2.1
Other debt issues	**4,686**	4,663	2,944	59.2	0.5
Preference shares and other contributed equity	**4,331**	4,534	4,534	(4.5)	(4.5)
Certificates of deposit	**66,127**	57,486	61,150	8.1	15.0
Securities sold under repurchase agreements	**9,443**	11,880	7,551	25.1	(20.5)
Due to other banks - Securities sold under repurchase agreements	**25,341**	26,970	15,068	68.2	(6.0)
Due to other banks	**19,863**	17,911	19,555	1.6	10.9
Other borrowings [1]	**14,389**	15,703	13,483	6.7	(8.4)
Liability on acceptances	**61**	12	3,228	(98.1)	large
Other financial liabilities at fair value	**24,168**	23,461	23,301	3.7	3.0
Total wholesale funding	**286,574**	278,399	261,531	9.6	2.9
Total funding liabilities	**677,628**	659,453	627,519	8.0	2.8
Total equity excluding preference shares and other contributed equity [1]	**43,577**	42,944	41,842	4.1	1.5
Life insurance liabilities [1][2]	**85,824**	82,320	78,586	9.2	4.3
Other liabilities [1]	**76,272**	61,297	61,923	23.2	24.4
Total liabilities and equity	**883,301**	846,014	809,870	9.1	4.4
Wholesale funding by maturity [1]					
Short-term funding	**107,982**	98,465	105,580	2.3	9.7
Securities sold under repurchase agreements	**34,784**	38,850	22,619	53.8	(10.5)
Term funding					
less than 1 year residual maturity	**34,042**	32,714	29,147	16.8	4.1
greater than 1 year residual maturity	**109,766**	108,370	104,185	5.4	1.3
Total wholesale funding by maturity	**286,574**	278,399	261,531	9.6	2.9
Funding liabilities [1]					
Customer deposits	**57.8%**	57.8%	58.3%		
Short-term funding	**15.9%**	14.9%	16.8%		
Securities sold under repurchase agreements	**5.1%**	5.9%	3.6%		
Term funding					
less than 1 year residual maturity	**5.0%**	5.0%	4.6%		
greater than 1 year residual maturity	**16.2%**	16.4%	16.7%		
Total funding liabilities	**100.0%**	100.0%	100.0%		

(1) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

(2) *Comprises life policy liabilities and external unitholders' liability.*

8. Number of Ordinary Shares

	Year to	
	Sep 14 No. '000	**Sep 13 No. '000**
Ordinary shares, fully paid		
Balance at beginning of period	**2,348,903**	2,297,247
Shares issued:		
Dividend reinvestment plan	**19,971**	32,278
Bonus share plan	**1,674**	2,075
Conversion of other debt issues	**-**	21,242
Employee share plans	**3,175**	5,593
Performance options and performance rights	**1,065**	805
Paying up of partly paid shares	**20**	15
On market purchase of shares for dividend reinvestment plan neutralisation	**(9,017)**	(10,352)
	2,365,791	2,348,903
Ordinary shares, partly paid to 25 cents		
Balance at beginning of period	**89**	104
Paying up of partly paid shares	**(20)**	(15)
	69	89
Total number of ordinary shares on issue at end of period (including treasury shares)	**2,365,860**	2,348,992
Less: Treasury shares [1]	**(55,689)**	(61,264)
Total number of ordinary shares on issue at end of period (excluding treasury shares)	**2,310,171**	2,287,728

[1] *Prior period has been restated for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 76.*

	Half Year to	
	Sep 14 No. '000	**Mar 14 No. '000**
Ordinary shares, fully paid		
Balance at beginning of period	**2,353,772**	2,348,903
Shares issued:		
Dividend reinvestment plan	**10,954**	9,017
Bonus share plan	**853**	821
Employee share plans	**201**	2,974
Performance options and performance rights	**11**	1,054
Paying up of partly paid shares	**-**	20
On market purchase of shares for dividend reinvestment plan neutralisation	**-**	(9,017)
	2,365,791	2,353,772
Ordinary shares, partly paid to 25 cents		
Balance at beginning of period	**69**	89
Paying up of partly paid shares	**-**	(20)
	69	69
Total number of ordinary shares on issue at end of period (including treasury shares)	**2,365,860**	2,353,841
Less: Treasury shares	**(55,689)**	(57,762)
Total number of ordinary shares on issue at end of period (excluding treasury shares)	**2,310,171**	2,296,079

9. Exchange Rates

	Income Statement - average				Balance Sheet - spot		
	Year to		Half Year to		As at		
One Australian dollar equals	Sep 14	Sep 13	Sep 14	Mar 14	30 Sep 14	31 Mar 14	30 Sep 13
British pounds	**0.5557**	0.6382	**0.5541**	0.5573	**0.5384**	0.5545	0.5764
Euros	**0.6784**	0.7596	**0.6890**	0.6679	**0.6900**	0.6706	0.6903
United States dollars	**0.9205**	0.9963	**0.9291**	0.9119	**0.8760**	0.9224	0.9315
New Zealand dollars	**1.0936**	1.2152	**1.0908**	1.0965	**1.1210**	1.0661	1.1255

10. ASX Appendix 4E

Cross Reference Index	Page
Results for Announcement to the Market (4E Item 2)	Inside front cover
Income Statement (4E Item 3)	70
Balance Sheet (4E Item 4)	72
Condensed Cash Flow Statement (4E Item 5)	73
Statement of Changes in Equity (4E Item 6)	74-75
Dividends (4E Item 7)	83
Dividend dates (4E Item 7)	Inside front cover
Dividend Reinvestment Plan (4E Item 8)	83
Net tangible assets per ordinary share (4E Item 9)	112
Details of entities over which control has been gained or lost (4E Item 10)	n/a
The Group has not gained or lost control over any material entities during the year ended 30 September 2014.	
Details of associates and joint venture entities (4E Item 11)	n/a
The Group held no material investments in associates or joint venture entities as at 30 September 2014.	
Other significant information (4E Item 12)	96
Commentary on Results (4E Item 14)	Inside front cover, Section 2 to 4, Note 6 Section 5
Compliance Statement (4E Item 15)	97

11. Divisional Performance Summary Excluding Foreign Currency Movements

Year ended 30 September 2014 at 30 September 2013 FX rates	Australian Banking [1] $m	NAB Wealth [2] $m	NZ Banking $m	UK Banking $m	NAB UK Commercial Real Estate $m	Corporate Functions & Other [3] [4] $m	Distributions & Eliminations $m	Group Cash Earnings $m
Net interest income	10,224	-	1,244	1,190	32	674	-	**13,364**
Other operating income	2,598	1,406	404	328	27	246	(57)	**4,952**
IoRE	-	34	-	-	-	-	-	**34**
Net operating income	12,822	1,440	1,648	1,518	59	920	(57)	**18,350**
Operating expenses	(5,221)	(950)	(664)	(1,074)	(50)	(1,782)	57	**(9,684)**
Underlying profit/(loss)	7,601	490	984	444	9	(862)	-	**8,666**
(Charge to provide for)/write-back of bad and doubtful debts	(733)	-	(72)	(126)	38	46	-	**(847)**
Cash earnings/(deficit) before tax and distributions	6,868	490	912	318	47	(816)	-	**7,819**
Income tax (expense)/benefit	(1,954)	(125)	(248)	(71)	(11)	(61)	-	**(2,470)**
Cash earnings/(deficit) before distributions	4,914	365	664	247	36	(877)	-	**5,349**
Distributions	-	-	-	-	-	-	(174)	**(174)**
Cash earnings/(deficit)	4,914	365	664	247	36	(877)	(174)	**5,175**

(1) *Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.*

(2) *Excludes Private Wealth (formerly part of NAB Wealth).*

(3) *Corporate Functions and Other includes Group Funding, Specialised Group Assets, Great Western Bank and other supporting units.*

(4) *Corporate Functions and Other includes the impacts of provisions taken for UK related payment protection insurance and interest rate hedging products.*

Half Year ended 30 September 2014 at 31 March 2014 FX rates	Australian Banking [1] $m	NAB Wealth [2] $m	NZ Banking $m	UK Banking $m	NAB UK Commercial Real Estate $m	Corporate Functions & Other [3] [4] $m	Distributions & Eliminations $m	Group Cash Earnings $m
Net interest income	5,192	-	697	681	15	344	-	**6,929**
Other operating income	1,253	698	223	187	28	114	(28)	**2,475**
IoRE	-	19	-	-	-	-	-	**19**
Net operating income	6,445	717	920	868	43	458	(28)	**9,423**
Operating expenses	(2,634)	(459)	(371)	(619)	(25)	(1,638)	28	**(5,718)**
Underlying profit/(loss)	3,811	258	549	249	18	(1,180)	-	**3,705**
(Charge to provide for)/write-back of bad and doubtful debts	(366)	-	(42)	(44)	51	51	-	**(350)**
Cash earnings/(deficit) before tax and distributions	3,445	258	507	205	69	(1,129)	-	**3,355**
Income tax (expense)/benefit	(972)	(67)	(136)	(53)	(15)	11	-	**(1,232)**
Cash earnings/(deficit) before distributions	2,473	191	371	152	54	(1,118)	-	**2,123**
Distributions	-	-	-	-	-	-	(91)	**(91)**
Cash earnings	2,473	191	371	152	54	(1,118)	(91)	**2,032**

(1) *Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.*

(2) *Excludes Private Wealth (formerly part of NAB Wealth).*

(3) *Corporate Functions and Other includes Group Funding, Specialised Group Assets, Great Western Bank and other supporting units.*

(4) *Corporate Functions and Other includes the impacts of provisions taken for UK related payment protection insurance and interest rate hedging products.*

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Section 7

Glossary of Terms

Terms	Description
AASB	Australian Accounting Standards Board.
ABS CDO	Asset-backed securities collateralised debt obligation.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to Authorised Deposit-taking Institutions.
ASX	Australian Securities Exchange.
Average assets	Represents the average of assets 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.
Average interest earning assets	The average balance of assets held by the Group that generate interest income.
Banking	Banking operations include the Group's: - Retail and Non-Retail deposits, lending and other banking services in Australian Banking, UK Banking, NAB UK Commercial Real Estate, NZ Banking, NAB Wealth and Great Western Bank; - Wholesale operations comprising Global Capital Markets and Treasury, Specialised Finance and Financial Institutions business within Australian Banking; and - Specialised Group Assets (SGA) operations and Group Funding within Corporate Functions and Other.
Banking Cost to Income Ratio	Represents banking operating expenses (before inter-segment eliminations) as a percentage of banking operating revenue (before inter-segment eliminations).
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.
BBSW	Bank bill swap rate.
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 by the Group's life insurance business.
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 by the Group's life insurance business and dilutive potential ordinary shares.
Cash return on equity (ROE)	Calculated as cash earnings divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares.
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 predominantly comprised of common shares; retained earnings; undistributed current year earnings; as well as other elements as defined under APS111 - Capital Adequacy: Measurement of Capital.
Common Equity Tier 1 Ratio	Common Equity Tier 1 as defined by APRA divided by risk-weighted assets.
Company	National Australia Bank Limited. ABN 12 004 044 937.
Conduit	Special Purpose Entity (SPE) used to fund assets through the issuance of asset-backed commercial paper or medium-term notes.
Core assets	Represents gross loans and advances including acceptances, financial assets at fair value, and investments held to maturity.
Customer deposits	Interest bearing, non-interest bearing and term deposits (including retail and corporate deposits).
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).
Deferred Acquisition Cost (DAC) discount	The profit impact of a change in value of deferred acquisition costs (net of reinsurance) included in insurance policy liabilities, resulting from a movement in the inflation adjusted risk-free discount rate.
Distributions	Payments to holders of other equity instrument issues such as National Income Securities, Trust Preferred Securities, Trust Preferred Securities II and National Capital Instruments.
Dividend payout ratio	Dividends paid on ordinary shares divided by cash earnings per share.
Earnings Per share	Basic and diluted earnings per share calculated in accordance with the requirements of AASB 133 "Earnings Per Share".
ESG	Environmental, Social and Governance.
Fair value	Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
Fair value and hedge ineffectiveness	Represents volatility attributable to the Group's application of the fair value option, ineffectiveness from designated accounting and economic hedge relationships and economic hedges of significant approved funding activities where hedge accounting has not been applied.
FCA	United Kingdom Financial Conduct Authority.
FSA	United Kingdom Financial Services Authority. Effective from 1 April 2013, the FSA has been abolished and replaced with two successor organisations. The Prudential Regulation Authority (PRA) will ensure the stability of financial services firms and the Financial Conduct Authority (FCA) will provide oversight and regulate conduct in the financial services industry.
Full-time equivalent employees (FTEs)	Includes all full-time staff, part-time, fixed term and casual staff equivalents, as well as agency temps 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.
FUM	Funds Under Management.
GDP	Gross Domestic Product (GDP) is the market value of the finished goods and services produced within a country in a given period of time.

General reserve for credit losses (GRCL)	The general reserve for credit losses (GRCL) is an estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets. The reserve is a compliance requirement under APS 220 - Credit Quality. The GRCL is calculated as a collective provision for doubtful debts, excluding securitisation and provision on default no-loss assets. The difference between the GRCL and accounting collective provision is covered with an additional top-up, created through a transfer from retained earnings to a reserve, to reflect losses expected as a result of future events that are not recognised in the Group's collective provision for accounting purposes.
GST	Goods and Services Tax (GST) is a value added tax of 10% on most goods and services sales.
Group	The Company and its controlled entities.
GWB	Great Western Bank.
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 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).
Insurance	Includes the provision of personal and Group insurance by NAB Wealth.
Investment earnings on Retained Earnings (IoRE)	Investment earnings (gross of tax) on shareholders' retained earnings, comprising investment earnings on surplus assets which are held in the Statutory Funds to meet capital adequacy requirements under the Life Insurance Act 1995 (Cth).
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.
Liquidity Coverage Ratio (LCR)	LCR is a new measure announced as part of the Basel III liquidity reforms that will apply from January 2015. The ratio 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 day calendar liquidity stress scenario.
Marketable debt securities	Comprises trading securities, investments - available for sale and investments - held to maturity.
Markets	Markets refers to the Fixed Income, Currencies and Commodities (FICC) business within the Australian Banking division of the Group.
NAB	The Company and its controlled entities.
NAB UK Commercial Real Estate (NAB UK CRE)	NAB UK CRE was created on 5 October 2012 following the transfer of certain commercial real estate loan assets from Clydesdale Bank plc to the Company. These loan assets are managed by the NAB London Branch.
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.
Net interest margin (NIM)	Net interest income 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 the Company	Represents the Group's statutory profit after tax and reflects the amount of net profit that is attributable to owners.
Non-impaired assets 90+ days past due	Non-impaired 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.
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.
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.
SGA	Specialised Group Assets.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Statutory Funds	A Statutory Fund is a fund that: - is established in the records of a life company; and - relates solely to the life insurance business of the Company or a particular part of that business.
Term Funding Index (TFI)	Term Wholesale Funding (with a remaining maturity to first call date greater than 12 months) divided by Core Assets.
Tier 1 Capital	Tier 1 Capital comprises the highest quality components of capital that fully satisfy all of the characteristics outlined under APRA's prudential framework. It provides a permanent and unrestricted commitment of funds that are freely available to absorb losses, do not impose any unavoidable servicing charge against earnings and rank behind the claims of depositors and other creditors in the event of winding-up.
Tier 1 Capital ratio	Tier 1 Capital as defined by APRA divided by risk-weighted assets.
Treasury shares	Shares in the Company held by the Group's life insurance business 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 life insurance business are eliminated for statutory reporting purposes.
Weighted average number of ordinary shares	Calculated in accordance with the requirements of AASB 133 'Earnings Per Share'.