



National  
Australia  
Bank

# 2015 Half Year Results

**Incorporating the requirements  
of Appendix 4D**

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

The half year consolidated report is to be read in conjunction with the Annual Financial Report 2014.



## Results for Announcement to the Market

### Results for announcement to the market

Report for the half year ended 31 March 2015

					<b>31 March 2015</b>
					<b>\$m</b>
Revenue from ordinary activities <sup>(1)</sup>	page 72	up	14.6% *	to	10,551
Profit after tax from ordinary activities attributable to owners of the Company <sup>(2)</sup>	page 72	up	20.4% *	to	3,440
Net profit attributable to owners of the Company <sup>(2)</sup>	page 72	up	20.4% *	to	3,440

\* On prior corresponding period (six months ended 31 March 2014).

<sup>(1)</sup> Required to be disclosed by ASX Listing Rule Appendix 4D. Reported as the sum of the following items from the Group's consolidated income statement: net interest income \$7,102 million, net life insurance income \$475 million and total other income \$2,974 million. On a cash earnings basis revenue increased by 3.1%.

<sup>(2)</sup> Net profit attributable to owners of the Company was up 20.4% to \$3,440 million, reflecting higher revenue, lower charges for bad and doubtful debts, partially offset by higher income tax expense in the March 2015 half year.

<b>Dividends</b>	<b>Amount per share cents</b>	<b>Franked amount per share %</b>
Interim dividend	99	100
Record date for determining entitlements to the interim dividend		19 May 2015

### Highlights <sup>(3)</sup>

Group cash earnings	up	5.4%	Cash earnings increased by \$170 million or 5.4% compared to the March 2014 half year. Excluding foreign exchange rate movements and specified items incurred in the March 2014 half year, cash earnings decreased by \$31 million or 0.9%. Details of the specified items that impacted the March 2014 half year can be found on page 21 of Section 3, of the March 2015 half year results. The decrease was largely driven by higher expenses, partially offset by higher revenue and lower charges for bad and doubtful debts. The difference between cash earnings and statutory net profit attributable to the owners of the Company were favourable movements in fair value and hedge ineffectiveness and distributions, partially offset by the impact of the elimination of treasury shares. Refer to information on cash earnings on page 2 of Section 1, of the 2015 half year results.
Cash return on equity (ROE)	up to	14.7%	Cash ROE increased by 10 basis points compared to the March 2014 half year.
Diluted cash earnings per share (cents)	up to	136.1	Diluted cash earnings per share increased by 3.7%.
Banking cost to income ratio	down	90 bps	The Group's banking cost to income ratio decreased by 90 basis points to 44.5%.
Common Equity Tier 1 capital ratio	up	23 bps	The Common Equity Tier 1 capital ratio (Basel III basis) is up 23 basis points to 8.87%.
Full time equivalent employees	up	545	Full time equivalent employees increased to 43,264 due to additional investment in the Group's priority customer segments, including service roles to support customer needs and the hiring of additional front line business bankers.

<sup>(3)</sup> All growth rates are calculated on a cash earnings basis on the prior corresponding period (six months ended 31 March 2014).

A Glossary of Terms is included in Section 7 of the 2015 half year results.

A reference in this Appendix 4D 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 March 2015 half year are references to the six months ended 31 March 2015. Other six 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 of the 2015 half year results. See page 124 for a complete index of ASX Appendix 4D requirements.

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## Table of Contents

**Section 1****Profit Reconciliation**

Information about Cash Earnings	2
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**Section 2****Highlights**

Group Performance	10
Key Performance Measures	10
Group Performance Indicators	10
Divisional Performance	11
Divisional Results	11
Divisional Performance Indicators	11
Net Profit Attributable to Owners of the Company	12
Shareholder Returns	12
Earnings per Share	12
Strategic Highlights & Business Developments	13

**Section 3****Review of Operating Environment, Group Operations and Results**

Review of Group Operating Environment	16
Review of Group Operations and Results	19
Full Time Equivalent Employees	26
Investment Spend	27
Taxation	27
Lending	28
Goodwill and Other Intangible Assets	29
Customer Deposits	30
Asset Quality	31
Capital Management and Funding	33
Other Matters	38

**Section 4****Review of Divisional Operations and Results**

Divisional Performance Summary	40
Divisional Asset Quality Ratio Summary	43
Australian Banking	46
NZ Banking	54
NAB Wealth	58
UK Banking	62
Corporate Functions and Other	66

**Section 5****Financial Report**

Report of the Directors	68
Consolidated Financial Statements	72
Notes to the Consolidated Financial Statements	78
Directors' Declaration	110
Independent Review Report	111

**Section 6****Supplementary Information**

114

**Section 7****Glossary of Terms**

128

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Thursday, 7 May 2015

## ASX Announcement

# NAB 2015 Half Year Results

## Executing our strategy, building a stronger bank

### Highlights

- Cash earnings<sup>2</sup> up 5.4% and statutory net profit up 20.4% over the year
- All major businesses contributing
- Interim dividend 99 cents per share fully franked
- UK demerger and IPO intention by 2015 calendar year end
- Life reinsurance agreement capital release
- \$5.5 billion rights issue to boost CET1 ratio

### Key points

The March 2015 half year results are compared with March 2014 half year results unless otherwise stated. March 2015 half year financials have been prepared incorporating the requirements of AASB<sup>1</sup>, with transitional adjustments reflected in retained earnings. Prior periods have not been restated.

- On a statutory basis, net profit attributable to owners of the Company was \$3.44 billion, an increase of \$584 million or 20.4%.
- Cash earnings<sup>2</sup> were \$3.32 billion, an increase of \$170 million or 5.4% with improved performances across all major businesses. Excluding prior period UK conduct related charges, cash earnings rose 0.3%. The main difference between statutory and cash earnings during the period relates to the elimination of treasury shares<sup>2</sup> coupled with the effects of fair value and hedge ineffectiveness<sup>2</sup>.
- On a cash earnings basis:
  - Revenue increased 3.1%. Excluding gains on the UK Commercial Real Estate (CRE) loan portfolio sale and SGA asset sales, revenue rose 2.2% benefitting from higher lending balances, the impact of changes in foreign exchange rates, stronger Markets and Treasury<sup>3</sup> income and increased NAB Wealth net income. Group net interest margin (NIM) declined 2 basis points over the year and 1 basis point when compared to the September 2014 half year.
  - Expenses were broadly flat but excluding a fine paid in relation to UK conduct and prior period UK conduct related charges rose 4.0%. The increase mainly reflects the impact of changes in foreign exchange rates, investment in the Group's priority customer segments and higher technology costs, combined with occupancy and Enterprise Bargaining wage increases.

<sup>1</sup> Note 1 (page 78) to the Group's 2015 Half Year Results Announcement published on 7 May 2015 includes further detail regarding AASB 9.

<sup>2</sup> Refer to note on cash earnings, treasury shares and fair value and hedge ineffectiveness on page 6 of this document.

<sup>3</sup> Markets and Treasury income represents Customer Risk Management and NAB Risk Management income.

- Improved asset quality resulted in a total charge to provide for bad and doubtful debts (B&DDs) of \$455 million, down 13.8%. This primarily reflects lower charges in UK Banking and NAB UK CRE. Compared to the September 2014 half year, the B&DD charge rose 30.4% due to releases from the Group economic cycle adjustment and NAB UK CRE overlay of \$104 million in the prior period which were not repeated.
- The Group's Basel III Common Equity Tier 1 (CET1) ratio was 8.87% as at 31 March 2015, an increase of 24 basis points from September 2014. As previously announced, the Group's CET1 target ratio from 1 January 2016 remains between 8.75% – 9.25%, based on current regulatory requirements.
- The interim dividend is 99 cents per share (cps) fully franked, unchanged from the prior interim dividend.
- For the March 2015 half year the Group has raised approximately \$17.3 billion of term wholesale funding. The weighted average term to maturity of the funds raised by the Group for the March 2015 half year was approximately 5.0 years.
- The Group's quarterly average liquidity coverage ratio as at 31 March 2015 was 118%.

#### Executive Commentary

“Our focus over the March 2015 half year has been on delivering against our strategic priorities outlined in October 2014 – building a stronger Australian and New Zealand franchise and dealing with our low returning and legacy assets. We are encouraged by the progress we have made on both fronts over this period with all major businesses contributing to cash earnings growth,” NAB Group Chief Executive Officer Andrew Thorburn said.

“At the time of our 2014 full year results we made it clear that a customer focused strategy, executed well, is at the heart of our Australia and New Zealand business. We've seen an improvement in our Net Promoter Score (NPS) as a result of a number of changes we've made to simplify the way we do business with customers, but there is more to do.

“Our strategy involves focusing on the things we are good at, which is why we've added 150 new business banker positions in the March 2015 half year and intend to add a further 70 over the remainder of the year. While competition remains intense in business lending, we are encouraged by more favourable market share trends in priority customer areas of Micro and Small to Medium business. In Australian home lending, we have seen continued momentum with volume growth over the six months to March 2015, benefitting from investment in our home loans origination capability. We remain confident about the quality of our housing lending book and are taking steps to slow growth in investor mortgage lending to meet APRA's 10% year-on-year threshold.

“Pleasingly, measures taken to improve performance in NAB Wealth have seen cash earnings continue to strengthen with an increase of 28%. In October 2014 we highlighted that while we remain committed to distributing wealth products, recent regulatory changes had prompted us to evaluate options to improve overall returns from our Wealth business. We have announced today a reinsurance agreement which is an important step towards achieving these goals, releasing \$500 million of capital.

“At the full year 2014 result we stated our intention to exit a number of legacy assets and we have made good progress over the first half of 2015. We announced a secondary public offering of Great Western Bank (GWB) common shares in the US, following the 2014 IPO of a 31.8% stake,

which sees our ownership fall to 28.5%. We have further reduced our UK CRE portfolio selling £1.2 billion of higher risk loans in December 2014, reducing the portfolio size to £0.6 billion compared with the original balance of £5.6 billion in October 2012. The remaining UK CRE portfolio largely comprises performing loans, effectively bringing closure to one of our legacy positions.

Additionally, the run-down of the SGA portfolio has continued, with risk weighted assets reducing from \$4.1 billion to \$2.1 billion largely due to asset sales over the period. Management of the remaining SGA exposures has now been absorbed into our Australian Banking operations.

“In relation to exiting our UK Banking business, we have been examining a broad range of options including those provided by public markets. It is a priority to exit this business, and we are today announcing our intention to pursue a demerger and IPO of the UK Banking business.

“A strong balance sheet has always been a priority at NAB which is why we are today announcing that we will be raising \$5.5 billion of capital through a rights issue, as described below. The capital raising facilitates our proposed exit from the UK Banking business and positions us ahead of anticipated regulatory changes.

“While there is still much more to be done, we are clear about our priorities and are focused on what needs to be achieved. We are determined to deliver better outcomes for our shareholders, customers and employees,” Mr Thorburn said.

#### UK Banking exit update

The Group's intention to exit the UK Banking business was signalled in October 2014 as a result of the strategy to focus on the Australian and New Zealand franchise. Significant work has since been undertaken on various exit options, in particular public market options which offer increased certainty on the ability to transact and timing. While remaining open to a trade sale, we intend to pursue a public market option of a demerger of approximately 70-80% of Clydesdale Bank's holding company National Australia Group Europe Ltd and its subsidiaries (Listco) to NAB shareholders and a sale of the balance by way of IPO (approximately 20-30%) to institutional investors. A demerger accelerates the full exit of the UK business, as opposed to a prolonged multi-staged public market sell-down, and allows an exit to be targeted by the end of this calendar year, subject to market conditions.

Following a period of successful restructuring, the UK Banking business is now in a position to be demerged to shareholders and listed as a standalone retail and business bank with a strong franchise across its core regional UK markets, a strong balance sheet and capital position, a robust business plan and an experienced management team. Under the proposed transaction, Listco will have a primary listing on the London Stock Exchange (LSE) and a CHESSE Depositary Interest (CDI) listing on the Australian Securities Exchange (ASX). Shareholders will have the option to receive shares or CDIs.

The UK Prudential Regulation Authority (PRA) has advised that in order to demerge Listco, NAB will be required to provide capital support for Listco against potential losses related to legacy conduct costs. These are centred on payment protection insurance, interest rate hedging products and fixed rate tailored business loan conduct issues not covered by existing provisions, to a total cap of £1.7 billion, provided that the demerger occurs within the intended timeframe. The cap amount is expected to be deducted from NAB's CET1 ratio upon completion of the demerger. While this figure is substantially in excess of NAB's own stress test scenario, we believe that the



disadvantage of the expected capital deduction is outweighed by the benefits of separating the business. To the extent actual losses are ultimately lower than the £1.7 billion, this is expected to result in a commensurate CET1 benefit for NAB. However, the form of support, duration and final regulatory capital treatment of the £1.7 billion remains subject to on-going regulatory discussion.

While significant progress has been made, including engagement with key stakeholders such as regulators, there is no certainty a transaction will occur. The proposed demerger and IPO remains subject to a range of matters, including shareholder approval and approvals from regulatory authorities in the UK and Australia, UK and Australian listing authorities and the boards of NAB and Listco. Additionally, the demerger and IPO will be a substantial and complex undertaking subject to a range of risks and issues.

#### Capital raising and financial implications

NAB will be undertaking a 2 for 25 fully underwritten pro rata accelerated renounceable rights issue with retail rights trading (the Entitlement Offer) at an offer price of \$28.50, to raise approximately \$5.5 billion. Approximately 194 million new NAB ordinary shares are to be issued (approximately 8.0% of issued capital). New shares issued under the Entitlement Offer will rank equally with existing shares from the date of allotment. New shares will not however be entitled to the interim dividend for the half year ended 31 March 2015 of 99 cps because they will not be issued before the dividend record date.

While completion of the UK demerger and IPO could have been achieved with a more limited capital raising by way of a partial dividend underwrite, this would likely have resulted in a CET1 ratio near the lower end of our 8.75 – 9.25% target range.

The pro forma CET1 ratio as at 31 March 2015 is approximately 10%, reflecting the impact of the rights issue and the UK separation and a range of announced and intended capital initiatives. This provides a pro forma CET1 ratio buffer of 100 basis points above the midpoint of the Group's target range to absorb potential regulatory changes.

Following the capital raising, NAB's pro forma cash earnings per share (EPS) diluted for the March 2015 half year is expected to be approximately 4.5% lower and pro forma cash earnings return on equity for the same period is expected to be 1.4% lower. Subject to finalisation and independent audit of the Group's September 2015 full year results, it is NAB's intention to maintain a fully franked dividend of 99 cps in the September 2015 half year.

#### NAB announces life reinsurance agreement

NAB Wealth today announced it has received APRA approval for its life insurance arm to enter into a reinsurance arrangement with a major global reinsurer for approximately 21% of its in-force retail advised insurance book.

The transaction is expected to release approximately \$500 million of CET1 capital (13 basis points) to the NAB Group, and represents approximately 15% of NAB Wealth's life insurance embedded value<sup>4</sup>. This is expected to result in a reduction in NAB Wealth cash earnings of approximately \$25 million per annum.

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<sup>4</sup> Based on internal estimates and calculations of MLC and insurance activities embedded value as at 30 September 2014.

The reinsurance arrangement reduces the Group's exposure to retail life insurance while maintaining distribution of life insurance products and services to the Group's customers.

The transaction is scheduled to take effect in the fourth quarter of financial year 2015. The final capital release is subject to APRA approval.

### Business Unit Commentary

Australian Banking cash earnings were \$2,574 million, an increase of 4.0%, with revenue the key driver. Revenue rose 3.9% reflecting a stronger trading performance, combined with higher volumes of housing and business lending, partly offset by weaker margins. NIM declined 3 basis points to 1.60% as a result of asset competition and lending mix impacts. Expenses rose 3.8% driven by additional service roles and front line business bankers, combined with Enterprise Bargaining wage increases and higher technology costs. Asset quality metrics continued to improve and B&DD charges of \$366 million fell 2.4%, benefitting from lower business impairment activity partly offset by higher collective provision charges including a \$49 million overlay for agriculture and resource sectors.

NZ Banking local currency cash earnings rose 4.5% to NZ\$418 million with higher revenue given steady growth in lending volumes and improved margins reflecting lower funding costs and benefits from both higher capital levels and higher earnings on capital. Costs rose 1.8% due mainly to increased personnel expenses, but were broadly flat compared to the September 2014 half year. B&DD charges were higher over the period with lower collective provision write-backs, but were flat over the six months to 31 March 2015 given the continued benign credit environment.

NAB Wealth cash earnings increased 28.2% to \$223 million reflecting improved results from both the investments and insurance businesses, and lower operating expenses. Net income rose 8.0% due to improved insurance claims performance, stable lapses and growth in funds under management (FUM) as a result of strong investment markets, partly offset by lower investment margins related to a change in business mix. There was no repeat of the insurance reserve increases seen in prior periods.

UK Banking local currency cash earnings grew 35.6% to £99 million driven by a further material reduction in B&DD charges as the business benefitted from improved economic conditions and loan portfolio shifts. Revenue was slightly weaker despite good growth in home lending volumes with competitive pressures resulting in NIM decline. Costs fell 1.2% with increased restructuring and marketing spend more than offset by a one-off pension scheme gain in the March 2015 half year and conduct related charges<sup>5</sup> that were incurred only in the March 2014 half year.

### 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 0.85% at 31 March 2015 was 34 basis points lower compared to 30 September 2014 and 67 basis points lower compared to 31 March 2014.

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<sup>5</sup> Charges relating to the UK fine during the March 2015 half year and conduct charges relating to payment protection insurance and interest rate hedging products incurred in prior periods have been included within Corporate Functions and Other division results.

The ratio of collective provision to credit risk weighted assets was 1.01% at 31 March 2015 compared to 0.83% at 30 September 2014 with the increase over the period reflecting transition to AASB 9. The ratio of specific provisions to impaired assets was 35.5% at 31 March 2015, which compares to 35.3% at 30 September 2014 and 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.

This announcement may not be distributed or released in the United States. This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or to any person acting for the account or benefit of a person in the United States, or in any other jurisdiction in which such an offer would be unlawful. Neither the Entitlements nor the new shares issued under the Entitlement Offer have been, or will be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or under the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, within the United States or to any person acting for the account or benefit of a person in the United States, unless the New Shares have been registered under the Securities Act or are offered and sold in a transaction exempt from, or not subject to, the registration requirements of the U.S. Securities Act and any other applicable state securities laws. New shares issued under the Entitlement Offer may only be purchased by persons meeting certain eligibility criteria; in particular, persons in the United States and persons acting for the account or benefit of a person in the United States will not be eligible to purchase or trade entitlements issued under the Entitlement Offer on ASX or exercise or trade such entitlements purchased on ASX or transferred directly from another person.

The pro forma financial information included in this announcement does not purport to be in compliance with Article 11 of Regulation S-X under the Securities Act, and was not prepared with a view towards compliance with either the U.S. Securities and Exchange Commission's or the American Institute of Certified Public Accountants' published guidelines for the preparation and presentation of pro forma financial information.

### 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 for the half year ended 31 March 2015 is set out on pages 2 to 7 of the 2015 Half 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. The Group's financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards, and reviewed by the auditors in accordance with Australian Auditing Standards, are included in Section 5 of the 2015 Half Year Results Announcement.

Treasury shares are shares in the NAB 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.

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.

**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 reconciliations of cash earnings to net profit attributable to owners of the Company (statutory net profit, less non-controlling interest in controlled entities).

### 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 that are included within the statutory net profit attributable to owners of the Company. Cash earnings does not purport to represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a cash flow statement. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards 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. Cash earnings for the March 2015 half year has been adjusted for the following:

- Distributions
- Treasury shares
- Fair value and hedge ineffectiveness
- Life insurance economic assumption variation
- Amortisation of acquired intangible assets.

### Reconciliation to statutory profit

Section 5 of the 2015 Half Year Results Announcement includes the Consolidated Income Statement of the Group, including statutory net profit. The Group's reviewed financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and applicable Australian Accounting Standards, and reviewed by the auditors in accordance with Australian Auditing Standards, are included in the financial report section of the 2015 Half Year Results Announcement.

A reconciliation of cash earnings to statutory net profit attributable to owners of the Company (statutory net profit, less non-controlling interest in controlled entities) is set out on page 3, and full reconciliations between statutory net profit and cash earnings are included in this section on pages 5-7 of the 2015 Half Year Results Announcement.

Page 4 contains a description of non-cash earnings items for March 2015 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 on 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's Results and Review of Divisional Operations and results are presented on a cash earnings basis, unless otherwise stated.

	Half Year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Net interest income	7,121	6,932	6,843	2.7	4.1
Other operating income	2,639	2,475	2,629	6.6	0.4
IoRE	24	19	15	26.3	60.0
<b>Net operating income</b>	<b>9,784</b>	<b>9,426</b>	<b>9,487</b>	<b>3.8</b>	<b>3.1</b>
Operating expenses	(4,460)	(5,724)	(4,456)	22.1	(0.1)
<b>Underlying profit</b>	<b>5,324</b>	<b>3,702</b>	<b>5,031</b>	<b>43.8</b>	<b>5.8</b>
Charge to provide for bad and doubtful debts	(455)	(349)	(528)	(30.4)	13.8
<b>Cash earnings before tax, non-controlling interest and distributions</b>	<b>4,869</b>	<b>3,353</b>	<b>4,503</b>	<b>45.2</b>	<b>8.1</b>
Income tax expense	(1,424)	(1,229)	(1,263)	(15.9)	(12.7)
<b>Cash earnings before non-controlling interest and distributions</b>	<b>3,445</b>	<b>2,124</b>	<b>3,240</b>	<b>62.2</b>	<b>6.3</b>
Cash earnings - non-controlling interest	(16)	-	-	-	-
Distributions	(109)	(90)	(90)	(21.1)	(21.1)
<b>Cash earnings</b>	<b>3,320</b>	<b>2,034</b>	<b>3,150</b>	<b>63.2</b>	<b>5.4</b>
<i>Non-cash earnings items (after tax):</i>					
Distributions	109	90	90	21.1	21.1
Treasury shares	(317)	70	(113)	large	large
Fair value and hedge ineffectiveness	354	311	(228)	13.8	large
Life insurance economic assumption variation	25	(21)	1	large	large
Amortisation of acquired intangible assets	(51)	(45)	(44)	(13.3)	(15.9)
<b>Net profit attributable to owners of the Company</b>	<b>3,440</b>	<b>2,439</b>	<b>2,856</b>	<b>41.0</b>	<b>20.4</b>

## Non-cash Earnings Items

### Distributions

Distributions relating to hybrid equity instruments are treated as an expense for cash earnings purposes and 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 for the March 2015 half year is to reduce cash earnings by \$109 million.

### Treasury Shares

For statutory reporting purposes, the Group eliminates the effect on statutory profit of the Group's life insurance business investment in NAB shares. The elimination includes unrealised mark-to-market movements arising from changes in NAB's share price, dividend income and realised profits and losses on the disposal of shares. This results in an accounting mismatch because the impact of the life policy liabilities supported by these shares is reflected in statutory profit. As such the statutory treasury shares elimination is reversed for cash earnings purposes. In the March 2015 half year there was a decrease in statutory profit of \$361 million (\$317 million after tax) from these shares.

### 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 volatility 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 certain assets and liabilities measured at fair value.

In the March 2015 half year there was an increase in statutory profit of \$508 million (\$354 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 measured at fair value reflecting current market conditions. In particular, the impact of interest rate, cross currency basis and foreign exchange movements has resulted in mark-to-market gains on these derivatives.

### Life Insurance Economic Assumption Variation

The life insurance economic assumption variation represents the net impact on statutory profit of the change in value of life insurance policy liabilities (net of reinsurance) and investments relating to life insurance business due to changes in economic assumptions (inflation and the risk free discount rate). In the March 2015 half year there was an increase in statutory profit of \$36 million (\$25 million after tax) due to the life insurance economic assumption variation.

### 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, brand names, values of business and contracts in force. In the March 2015 half year there was a decrease in statutory profit of \$69 million (\$51 million after tax) due to the amortisation of acquired intangible assets.

Reconciliation between Statutory Net Profit after Tax and Cash Earnings

Half Year ended 31 March 2015	Statutory Net Profit \$m	NAB Wealth adj. <sup>(1)</sup> \$m	Distri- butions \$m	Treasury shares \$m	Fair value and hedge ineffec. \$m	Life insurance economic assumption \$m	Amortisation of acquired intangible assets \$m	Cash Earnings \$m
Net interest income	7,102	19	-	-	-	-	-	7,121
Net life insurance income	475	(800)	-	361	-	(36)	-	-
Other operating income	2,974	170	-	-	(506)	-	1	2,639
IoRE	-	24	-	-	-	-	-	24
Net operating income	10,551	(587)	-	361	(506)	(36)	1	9,784
Operating expenses	(4,593)	65	-	-	-	-	68	(4,460)
Profit/(loss) before charge to provide for doubtful debts	5,958	(522)	-	361	(506)	(36)	69	5,324
Charge to provide for doubtful debts	(453)	-	-	-	(2)	-	-	(455)
Profit/(loss) before tax	5,505	(522)	-	361	(508)	(36)	69	4,869
Income tax (expense)/benefit	(2,045)	518	-	(44)	154	11	(18)	(1,424)
<b>Net profit/(loss) before distributions and non-controlling interest</b>	3,460	(4)	-	317	(354)	(25)	51	3,445
Net profit attributable to non-controlling interest in controlled entities	(20)	4	-	-	-	-	-	(16)
Distributions	-	-	(109)	-	-	-	-	(109)
<b>Net profit/(loss) attributable to owners of the Company</b>	<b>3,440</b>	<b>-</b>	<b>(109)</b>	<b>317</b>	<b>(354)</b>	<b>(25)</b>	<b>51</b>	<b>3,320</b>

<sup>(1)</sup> NAB Wealth statutory results include certain disclosures which do not exist in the cash earnings view, including net life insurance income (NLI) and policyholder amounts. The following adjustments are made to the Statutory results for cash earnings purposes:

a) NLI is a statutory disclosure requirement only, and as such, all items shown under NLI are reclassified for cash earnings purposes, as follows:

i) Most policyholder amounts offset within NLI in the statutory results, except for policyholder tax which is reclassified and offset within NLI

ii) All remaining NLI 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



Half Year ended 30 September 2014	Statutory Net Profit \$m	NAB Wealth adj. <sup>(1)</sup> \$m	Distri- butions \$m	Treasury shares \$m	Fair value and hedge ineffec. \$m	Life insurance economic assumption \$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)
Profit/(loss) before charge to provide for doubtful debts	4,162	(31)	-	(96)	(423)	30	60	3,702
Charge to provide for doubtful debts	(332)	-	-	-	(17)	-	-	(349)
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)
<b>Net profit/(loss) before distributions and non-controlling interest</b>	2,439	-	-	(70)	(311)	21	45	2,124
Distributions	-	-	(90)	-	-	-	-	(90)
<b>Net profit/(loss) attributable to owners of the Company</b>	<b>2,439</b>	<b>-</b>	<b>(90)</b>	<b>(70)</b>	<b>(311)</b>	<b>21</b>	<b>45</b>	<b>2,034</b>

<sup>(1)</sup> NAB Wealth statutory results include certain disclosures which do not exist in the cash earnings view, including net life insurance income (NLI) and policyholder amounts. The following adjustments are made to the statutory results for cash earnings purposes:

a) NLI is a statutory disclosure requirement only, and as such, all items shown under NLI are reclassified for cash earnings purposes, as follows:

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ii) All remaining NLI 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

Half Year ended 31 March 2014	Statutory Net Profit \$m	NAB Wealth adj. <sup>(1)</sup> \$m	Distri- butions \$m	Treasury shares \$m	Fair value and hedge ineffec. \$m	insurance economic assumption \$m	Life economic assumption \$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)
Profit/(loss) before charge to provide for doubtful debts	4,648	(116)	-	118	327	-	(1)	55	5,031
Charge to provide for doubtful debts	(523)	-	-	-	(5)	-	-	-	(528)
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)
<b>Net profit/(loss) before distributions and non-controlling interest</b>	<b>2,859</b>	<b>(3)</b>	<b>-</b>	<b>113</b>	<b>228</b>	<b>(1)</b>	<b>(1)</b>	<b>44</b>	<b>3,240</b>
Net profit attributable to non-controlling interest in controlled entities	(3)	3	-	-	-	-	-	-	-
Distributions	-	-	(90)	-	-	-	-	-	(90)
<b>Net profit/(loss) attributable to owners of the Company</b>	<b>2,856</b>	<b>-</b>	<b>(90)</b>	<b>113</b>	<b>228</b>	<b>(1)</b>	<b>(1)</b>	<b>44</b>	<b>3,150</b>

<sup>(1)</sup> NAB Wealth statutory results include certain disclosures which do not exist in the cash earnings view, including net life insurance income (NLI) and policyholder amounts. The following adjustments are made to the statutory results for cash earnings purposes:

a) NLI is a statutory disclosure requirement only, and as such, all items shown under NLI are reclassified for cash earnings purposes, as follows:

i) Most policyholder amounts offset within NLI in the statutory results, except for policyholder tax which is reclassified and offset within NLI

ii) All remaining NLI 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

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**Section 2**

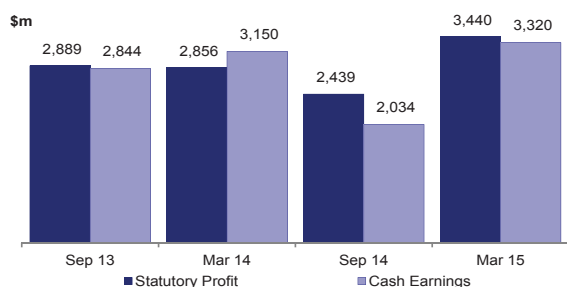
**Highlights**

Group Performance	10
Key Performance Measures	10
Group Performance Indicators	10
Divisional Performance	11
Divisional Results	11
Divisional Performance Indicators	11
Net Profit Attributable to Owners of the Company	12
Shareholder Returns	12
Earnings per Share	12
Strategic Highlights & Business Developments	13

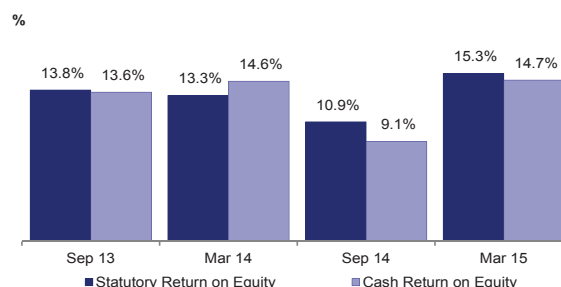
Group Performance

Key Performance Measures <sup>(1)</sup>

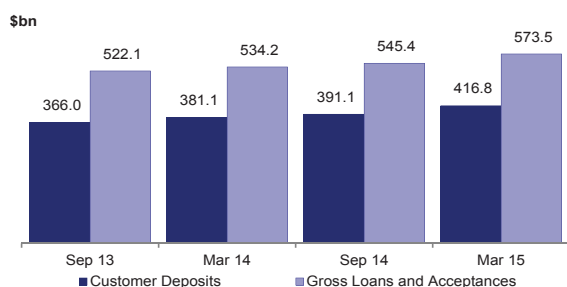
Statutory Profit and Cash Earnings - half year



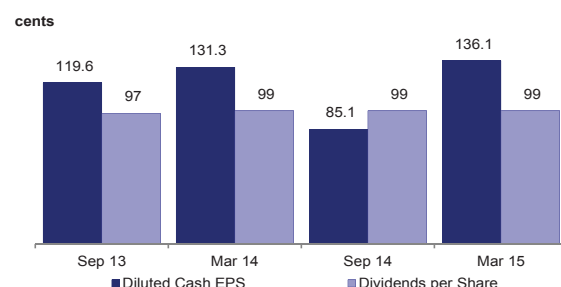
Statutory and Cash Return on Equity (ROE) - half year



Gross Loans and Acceptances and Customer Deposits



Diluted Cash EPS and Dividend per Share - half year



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

	Half Year to		
	Mar 15	Sep 14	Mar 14
<b>Key Indicators</b>			
Statutory earnings per share (cents) - basic	142.4	101.8	120.4
Statutory earnings per share (cents) - diluted	139.8	100.2	118.4
Cash earnings per share (cents) - basic	138.5	86.0	133.7
Cash earnings per share (cents) - diluted	136.1	85.1	131.3
Statutory return on equity	15.3%	10.9%	13.3%
Cash return on equity (ROE)	14.7%	9.1%	14.6%
<b>Profitability, performance and efficiency measures</b>			
Dividend per share (cents)	99	99	99
Dividend payout ratio	71.5%	115.1%	74.0%
Cash earnings on average assets	0.71%	0.47%	0.74%
Cash earnings on average risk-weighted assets	1.77%	1.10%	1.72%
Cash earnings per average FTE (\$'000)	155	94	150
Banking cost to income (CTI) ratio	44.5%	60.6%	45.4%
Net interest margin	1.92%	1.93%	1.94%
<b>Capital</b>			
Common Equity Tier 1 ratio	8.87%	8.63%	8.64%
Tier 1 ratio	11.13%	10.81%	10.83%
Total capital ratio	12.81%	12.16%	12.17%
Risk-weighted assets <sup>(2)</sup> (\$bn)	393.2	367.7	367.2
<b>Volumes (\$bn)</b>			
Gross loans and acceptances <sup>(2)(3)</sup>	573.5	545.4	534.2
Average interest earning assets	745.4	716.0	707.2
Total average assets	938.4	869.9	854.0
Total customer deposits <sup>(2)</sup>	416.8	391.1	381.1
<b>Asset quality</b>			
90+ days past due and gross impaired assets to gross loans and acceptances	0.85%	1.19%	1.52%
Collective provision to credit risk-weighted assets	1.01%	0.83%	0.91%
Specific provision to gross impaired assets	35.5%	35.3%	34.8%
<b>Other</b>			
Funds under management and administration <sup>(4)</sup> (\$bn)	177.1	158.1	153.8
Annual inforce premiums (\$m)	1,788.3	1,690.6	1,672.6
Full Time Equivalent Employees (FTE) (spot)	43,264	42,853	42,719
Full Time Equivalent Employees (FTE) (average)	43,027	42,987	42,234

<sup>(1)</sup> All key performance measures and Group performance indicators are calculated on a cash earnings basis unless otherwise stated. Where appropriate, half year key performance measures are annualised, with the exception of earnings per share measures. A glossary of terms is included in section 7.

<sup>(2)</sup> Spot balance at reporting date.

<sup>(3)</sup> Including loans and advances at fair value.

<sup>(4)</sup> Excludes Trustee and Cash Management within NAB Wealth.

## 2015

## Divisional Performance

## Changes to the presentation of Divisional Financial Information

Following the sale of the majority of the NAB UK Commercial Real Estate (NAB UK CRE) portfolio, the remaining NAB UK CRE operations have been included in Corporate Functions and Other.

## Divisional Results

	Half Year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Australian Banking	2,574	2,473	2,474	4.1	4.0
NZ Banking	391	373	365	4.8	7.1
NAB Wealth	223	191	174	16.8	28.2
UK Banking	184	153	131	20.3	40.5
Corporate Functions and Other <sup>(1)</sup>	57	(1,066)	96	large	(40.6)
Distributions	(109)	(90)	(90)	(21.1)	(21.1)
<b>Cash earnings</b>	<b>3,320</b>	<b>2,034</b>	<b>3,150</b>	<b>63.2</b>	<b>5.4</b>
Non-cash earnings items	120	405	(294)	(70.4)	large
<b>Net profit attributable to owners of the Company</b>	<b>3,440</b>	<b>2,439</b>	<b>2,856</b>	<b>41.0</b>	<b>20.4</b>

<sup>(1)</sup> NAB UK CRE has been incorporated into Corporate Functions and Other, including prior year comparatives. Corporate Functions and Other also includes Group Funding, SGA, GWB and other supporting units.

## Divisional Performance Indicators

	Half Year to			Mar 15 v Sep 14	Mar 15 v Mar 14
	Mar 15	Sep 14	Mar 14		
<b>Australian Banking (AU\$)</b>					
Cash earnings (\$m)	2,574	2,473	2,474	4.1%	4.0%
Cash earnings on average assets	0.70%	0.72%	0.74%	(2 bps)	(4 bps)
Cash earnings on average risk-weighted assets	1.97%	1.96%	2.00%	1 bps	(3 bps)
Net interest margin	1.60%	1.61%	1.63%	(1 bps)	(3 bps)
Net operating income (\$m)	6,727	6,444	6,473	4.4%	3.9%
Cost to income ratio	40.6%	40.8%	40.7%	20 bps	10 bps
<b>NZ Banking (NZ\$)</b>					
Cash earnings (NZ\$m)	418	407	400	2.7%	4.5%
Cash earnings on average assets	1.24%	1.23%	1.26%	1 bps	(2 bps)
Cash earnings on average risk-weighted assets	1.79%	1.76%	1.77%	3 bps	2 bps
Net interest margin	2.41%	2.34%	2.34%	7 bps	7 bps
Net operating income (NZ\$m)	1,034	1,009	994	2.5%	4.0%
Cost to income ratio	39.4%	40.2%	40.2%	80 bps	80 bps
<b>NAB Wealth (AU\$)</b>					
Cash earnings (\$m)	223	191	174	16.8%	28.2%
Investment operating expenses to average FUM (bps)	42	44	49	2 bps	7 bps
Insurance cost to average inforce premiums	15%	14%	15%	(100 bps)	-
Cost to income ratio	60.2%	64.0%	67.9%	380 bps	770 bps
<b>UK Banking (£)</b>					
Cash earnings (£m)	99	85	73	16.5%	35.6%
Cash earnings on average assets	0.52%	0.45%	0.40%	7 bps	12 bps
Cash earnings on average risk-weighted assets	0.84%	0.71%	0.60%	13 bps	24 bps
Net interest margin	2.18%	2.18%	2.25%	-	(7 bps)
Net operating income (£m)	479	484	485	(1.0%)	(1.2%)
Cost to income ratio	70.4%	71.3%	70.3%	90 bps	(10 bps)

## Group Performance

Andrew Thorburn

### Net Profit Attributable to Owners of the Company

Net profit attributable to owners of the Company (statutory net profit) for the March 2015 half year increased by \$584 million or 20.4% compared to the March 2014 half year, and increased by \$1,001 million or 41.0% compared to the September 2014 half year. 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 increased by 200 basis points to 15.3% compared to the March 2014, and increased by 440 basis points compared to September 2014 half year. The Group's cash return on equity increased by 10 basis points to 14.7% compared to the March 2014, and increased by 560 basis points compared to the September 2014 half year. Excluding specified items in 2014 (detailed on page 21), the increase when compared to the March 2014 half reflects higher revenue and lower charges for bad and doubtful debts.

The interim dividend for March 2015 is 99 cents per share. This represents a dividend payout ratio of 71.5% for the March 2015 half year on a cash earnings basis.

The dividend is 100% franked and is payable on 3 July 2015. Shares will be quoted ex-dividend on 15 May 2015.

### Earnings per Share

**Basic statutory earnings per share** increased by 22.0 cents or 18.3%, and diluted earnings per share increased by 21.4 cents or 18.1%, on the March 2014 half year. This reflects the Group's increase in statutory profit.

**Basic statutory earnings per share** increased by 40.6 cents or 39.9%, and diluted earnings per share increased by 39.6 cents or 39.5%, on the September 2014 half year.

**Basic cash earnings per share** increased by 4.8 cents or 3.6%, and diluted cash earnings per share increased by 4.8 cents or 3.7%, on the March 2014 half year. This reflects the Group's increase in cash earnings.

**Basic cash earnings per share** increased by 52.5 cents or 61.0%, and diluted cash earnings per share increased by 51.0 cents or 59.9%, on the September 2014 half year.

# 2015

## Strategic Highlights & Business Developments

The Group has refreshed its strategy in light of the changing business environment in which it operates. The strategy seeks to position the Group to be Australia and New Zealand's most respected bank. The Group's objective is to deliver superior returns to its shareholders.

To meet this objective, the Group will focus on delivering initiatives aligned to the strategic themes outlined below.

### Focusing on priority customer segments

The Group will focus its resources on the priority customer segments within Australia and New Zealand. Small and medium business customers will be prioritised, given the Group's market leading position, including the Agriculture and Health industries. Personal Banking also remains a priority, and the Group will devote more resources to winning business in key segments, especially mortgage and debt free customers.

To allow greater focus on its Australian and New Zealand customers, the Group:

- Sold 31.8% of Great Western Bancorp, Inc.'s outstanding common stock through an Initial Public Offering in October 2014 and completed a secondary public offering of Great Western Bancorp, Inc. in May 2015, reducing the Group's holding in Great Western Bancorp, Inc. to 28.5%
- Sold a £1.2 billion parcel of higher risk loans from NAB's UK Commercial Real Estate (NAB UK CRE) portfolio in December 2014
- Reduced the size of the Specialised Group Assets portfolio to \$2.1 billion in risk weighted assets and transferred ongoing management of the remaining portfolio to Australian Banking wholesale operations.

### Deliver a great customer experience

Delivering a great experience for customers will be critical to success in these segments. The Group will aim to:

- Deepen relationships with its customers – by developing compelling value propositions and improving service experience
- Make it simple for customers – by continuing to fix customer pain points, including mortgage variations and business lending fulfilment
- Innovate for customers – by improving the Group's digital capabilities and embedding customer centred innovation.

### Execute flawlessly and relentlessly

The Group will also focus on improving its execution performance, and seek to:

- Drive performance – by utilising the Group's performance management framework that is now embedded within the operating rhythm of the Australian franchise and allows a much more disaggregated view on how it is performing
- Execute change well – by smaller agile releases with customer centric design and leveraging NAB's existing project management framework
- Transform processes for speed & reliability – by leveraging operational and business management excellence widely into the business, executing continuous process improvement and undertaking end-to-end customer centric process re-design.

### Great people living the Group's values

The Group's people are critical to its competitive position. The Group's values are not just statements. They are how its people are expected to behave in order to deliver the strategic themes outlined above and meet the Group's goals. The values of the Group are: Passion for Customers; Will to Win; Be Bold; Respect for People; and Do the Right Thing.

### Foundational platforms

Finally, the strategy is supported by the Group's foundations of maintaining a strong balance sheet, managing risk and investing in technology.



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## Section 3

### Review of Operating Environment, Group Operations and Results

Review of Group Operating Environment	16
Review of Group Operations and Results	19
Net Interest Income	22
Net Interest Margin	23
Other Operating Income	24
Operating Expenses	25
Full Time Equivalent Employees	26
Investment Spend	27
Taxation	27
Lending	28
Goodwill and Other Intangible Assets	29
Customer Deposits	30
Asset Quality	31
Capital Management and Funding	33
Other Matters	38

## Review of Group Operating Environment

### Global Business Environment

The pace of global growth has remained around 3¼% since 2013. Recent business surveys show little sign that the long-predicted acceleration in the pace of growth occurred in the first few months of 2015. World trade grew by around 3% in 2014, around half its long-run pace, marking a break from previous trends where trade growth outstripped that of global output.

There were marked differences in the rate of economic growth between different regions. The big advanced economies grew by a lacklustre 1.8% in 2014, faster than the 1.4% recorded in the previous year. However, the anticipated ramping up in their growth through 2014 did not occur. This was because the quarterly growth rate faded toward the end of 2014 as US growth slowed and activity remained subdued in Japan and the Euro-zone.

The big Asian emerging market economies continued to record solid growth in 2014, underpinning the 5% growth rate recorded for the emerging economies overall. The trend of slowing Chinese growth has continued, but the Indian economy is still expanding rapidly. Elsewhere in Asia and Latin America, growth is generally moderate at best.

The subdued nature and uneven distribution of global growth have important consequences for the Group's key Australasian economies, given their reliance on commodity exports and close ties to the trade-dependent economies of East Asia.

Subdued global growth has curbed the rate of expansion in global commodity demand just as new supply related to previously high commodity prices has been coming on stream. The outcome has been a fall of almost 25% in US\$ commodity prices between early 2013 and early 2015, a decline so broad-based that few items have escaped the downward trend. These falls in primary sector prices have eroded national income in Australia and New Zealand.

The emerging market economies of East Asia are crucial trading partners for both Australia and New Zealand, accounting for 55% of Australian goods exports and almost 40% of New Zealand shipment values. The East Asian region has historically relied heavily on exports as a key engine for its economic growth. Consequently, the subdued growth in world trade experienced through the last few years has curbed activity in the region's key export markets, limiting the demand for Australasian products.

### Australian Economy

Australian economic growth has been running below trend since 2013, a situation that is expected to continue in 2015. Sub-trend growth is reflected in the gradual increase in the unemployment rate from around 5% in mid 2012 to over 6% in early 2015 and the modest rates of growth in wages and household incomes. Sub-trend growth has also been reflected in the Reserve Bank of Australia's cuts to the cash rate, as well as the widening in the Australian Government's budget deficit (due to below forecast revenues).

The unwinding of the earlier booms in commodity prices and mining investment explains much of the current softness in demand growth. Australian commodity export prices have fallen by around 30% in world currency terms

since early 2013, with lower iron ore and coal prices leading to a fall of almost 50% in bulk export prices. The surge in mining investment that followed the rise in resource prices is also fading. The volume of capital expenditure in mining peaked in late 2012 and fell by 16% through 2014. Mining industry profits have also fallen well below their 2011 peak. Further sharp falls in mining investment are expected through the next couple of years and many firms across the mining sector have been curbing exploration and rationalising operations to cut costs.

While the commodity price and investment parts of the three-stage mining boom have peaked, its final phase – a ramping up in resource export volumes – is still under way. Bulk export volumes were already growing by 15% year-on-year in late 2014 and big Liquefied Natural Gas projects are set to gradually come on stream in Queensland, Western Australia and the Northern Territory, making Australia one of the world's biggest gas exporters.

This expansion of resource sector export volumes is already driving a large part of aggregate economic growth, a situation that appears set to continue. While output grew by 2.7% in 2014, domestic spending rose by only 1.2% and it was higher exports that contributed most of this sizeable difference between these measures. Output growth is expected to slow to 2.4% in 2015 before recovering to 3.2% in 2016 but domestic demand growth should remain at around a low 1%, highlighting the continued role of higher export volumes in driving GDP. Uncertainty over the seasonal outlook overhangs the rural sector with concerns that an El Niño could be forming, bringing drought that depresses farm output and incomes in Eastern Australia.

The softness in domestic demand growth reflects more than the winding down of the mining investment boom. It is also the outcome of still cautious attitudes toward investment in parts of the non-mining sector. The volume of non-mining investment picked up through 2014 but has remained below the level reached in 2011. With profitability levelling-off in the non-mining sectors of the economy and capacity utilisation at below-average levels in several industries, many firms probably see little need to invest in the near future.

Unemployment has been rising and there has been modest growth across large parts of the economy as growth of wages and household income has slowed to low levels by historical standards. The growth rate in household nominal disposable income was only 3.6% year-on-year at the end of 2014. The growth rate of hourly pay excluding bonuses was low and growth in the economy's wages bill virtually marked time at the end of 2014. A combination of falling inflation and a drop in the household savings ratio has, however, allowed real consumption to keep growing, despite soft income growth.

Household spending has also been supported by the strength of the housing market with trend growth of around 10% year-on-year in consumer spending on household goods. This strength in sales reflects the buoyancy of housing markets in Sydney, Brisbane and Melbourne with price growth of 12%, 5% and 4.5% year-on-year in late 2014 respectively. By contrast, the Perth, Hobart and Canberra housing markets have been more subdued.

Housing construction is also responding to low interest rates with dwelling approval numbers in early 2015 almost 50% above their early 2013 level and a rise in the volume of housing commencements. Housing credit has picked up to around 7% year-on-year, largely reflecting faster growth in investor housing loans (where the value of new loans committed has nearly doubled since early 2011).

### New Zealand Economy

After last year's solid growth of 3.3%, output is expected to continue expanding by 2.8% in 2015. The business surveys for early 2015 show solid outcomes for activity, investment, employment and profitability. Moreover, with the exception of the dairy sector where incomes have been hit by earlier falls in commodity prices, the economy's strength appears broadly based, unlike Australia where a small group of resource exports are driving growth.

Fluctuations in dairy prices have had a substantial impact on New Zealand's export earnings and incomes, with 2014's sharp price decline cutting around NZ\$ 6 billion from national income, equating to over 2% of nominal GDP. Dairy prices have been volatile but the prices for other important commodities like meat, fruit, forest products and seafood have remained relatively robust. As a result, the decline in New Zealand's export prices and terms of trade has been much smaller than is the case in Australia and the Reserve Bank of New Zealand forecasts that New Zealand's terms of trade should remain high through the next few years.

Household spending grew at an annualised rate of around 5% in the latter half of 2014 while core retail trade volumes were up by an annualised rate of 6%. This solid outcome reflects strong growth in employment, improved household financial balances (as savings are boosted by rapid growth in deposits and increased house prices lift wealth), a pick up in wage growth from mid-2014 and improved household job security (as the unemployment rate has trended down to less than 6%).

The housing market is picking up again, especially in Auckland where prices in March 2015 were around 13% above their year-earlier level, reflected in increased sales volumes and faster property sales. Long term net immigration is running at record levels and many migrants are settling in Auckland, boosting housing demand in the city. The building sector is sharing in this recovery, with new dwelling construction growing strongly, to be around its decade-earlier peak. Housing credit growth has picked up since late 2011, but growth remains well below the rates seen prior to the global financial crisis.

The jobless rate has fallen below its historical average, capacity utilisation rates are high and the Reserve Bank of New Zealand estimates that there is little spare productive capacity lying idle. Nevertheless, wage and price inflation is still low. CPI inflation is close to zero year-on-year, well below the lower end of the Reserve Bank of New Zealand's target range and the authorities expect price pressures to remain subdued for several years.

Lower global oil prices and a surprisingly strong New Zealand dollar explain some of this sub-target inflation rate, but rapid growth in the economy's supply capacity should also be holding down inflation. Growth in the working age population and labour force is running well above its historical average, business investment growth has been solid since 2010 and business surveys for

early 2015 show a willingness among firms to invest, adding to the capital stock. The pick-up in business credit accompanying this investment has only been moderate with lending growth generally remaining under 5% year-on-year. This shows a still cautious attitude to debt, despite the strong economy.

The Reserve Bank of New Zealand has already lifted its official interest rate. Rates have increased by 100 basis points since early 2014, but the Reserve Bank of New Zealand paused in this process of "normalising" rates after July 2014. It projects a further period of rate stability, enabling it to watch how the economy performs.

### United Kingdom Economy

The UK economy has experienced a sustained recovery with growth accelerating from 0.7% in 2012 to 1.7% in 2013 and 2.8% in 2014. Preliminary estimates suggest that the pace of growth slowed to an annualised 1.2% in early 2015, lower than the business surveys would have suggested. The loss of momentum was broad based with falling output in the farming, industrial and construction sectors and a slowing in service sector growth.

The UK economy has also under-performed other important Group markets since the onset of severe financial stress during 2008. Australian and New Zealand GDP increased by 17% and 10% respectively between March 2008 and December 2014 whereas the output increase in the UK was only 4% during that period.

The UK upturn has been quite broad-based with household consumption and business investment playing important roles. Solid growth in employment has lowered the jobless rate from 8% in early 2013 to 5.6% in early 2015 and, after a long period of downward pressure on real household incomes, a combination of faster growth in wages and low inflation should support further growth in spending. The household saving ratio has also been falling and rising equity and house prices have boosted household wealth, further underpinning consumer demand.

Although UK house price indices have been trending up since late 2012 and now either exceed or are close to their pre-financial crisis peaks, the upturn in housing credit remains modest with mortgage lending growth slipping to an annualised rate of just over 1% in late 2014 and early 2015. The pick-up in the volume of housing transactions and new home loan approval numbers has been modest, depressing the recovery in housing lending.

Commercial property prices have also been rising. By early 2015 the market was a third above its mid-2009 low but still a quarter below the levels achieved in 2007. As commercial property accounts for one-third of business credit and lending to this sector was still falling by 5% year-on-year in early 2015, the incomplete market recovery has weighed on business system credit. Despite the trend lift in appetite for risk and expansion evident in the 'Deloitte UK Chief Financial Officers Survey Q1 2015' released in April 2015, the stock of corporate lending is still trending down and by early 2015 it was almost 30% below its pre-financial crisis level. Credit demand among small and medium sized firms is even weaker, the lending stock falling almost continually for six years, now down by over 35% since late 2008.

As the economic upturn in the UK matures, it has lost momentum. Annualised growth has already slowed from around 3.5% to 2.5% between the June and December

quarters of 2014 and then eased further to 1.2% in March 2015. The majority of forecasters expect the pace of expansion to settle at around 2.3% by 2016. With the Bank of England estimating that there is still a small amount of idle productive capacity in the economy and only expecting inflation to return to its 2% target by late 2017, there seems little urgency to lift official interest rates. Instead, the main uncertainties surround the political landscape, in particular the prospects for a referendum on UK membership of the European Union.

## 2015

## Review of Group Operations and Results

Craig Drummond

## Group Results

	Half Year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Net interest income	7,121	6,932	6,843	2.7	4.1
Other operating income	2,639	2,475	2,629	6.6	0.4
IoRE	24	19	15	26.3	60.0
<b>Net operating income</b>	<b>9,784</b>	<b>9,426</b>	<b>9,487</b>	<b>3.8</b>	<b>3.1</b>
Operating expenses	(4,460)	(5,724)	(4,456)	22.1	(0.1)
<b>Underlying profit</b>	<b>5,324</b>	<b>3,702</b>	<b>5,031</b>	<b>43.8</b>	<b>5.8</b>
Charge to provide for bad and doubtful debts	(455)	(349)	(528)	(30.4)	13.8
<b>Cash earnings before tax, non-controlling interest and distributions</b>	<b>4,869</b>	<b>3,353</b>	<b>4,503</b>	<b>45.2</b>	<b>8.1</b>
Income tax expense	(1,424)	(1,229)	(1,263)	(15.9)	(12.7)
<b>Cash earnings before non-controlling interest and distributions</b>	<b>3,445</b>	<b>2,124</b>	<b>3,240</b>	<b>62.2</b>	<b>6.3</b>
Cash earnings - non-controlling interest	(16)	-	-	-	-
Distributions	(109)	(90)	(90)	(21.1)	(21.1)
<b>Cash earnings <sup>(1)</sup></b>	<b>3,320</b>	<b>2,034</b>	<b>3,150</b>	<b>63.2</b>	<b>5.4</b>
Non-cash earnings items	120	405	(294)	(70.4)	large
<b>Net profit attributable to owners of the Company</b>	<b>3,440</b>	<b>2,439</b>	<b>2,856</b>	<b>41.0</b>	<b>20.4</b>

<sup>(1)</sup> 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 - 7 in Section 1.

Cash Earnings <sup>(1)</sup>

<sup>(1)</sup> At constant exchange rates.

<sup>(2)</sup> Includes distributions and eliminations. The results of Corporate Functions and Other includes the impact of specified items in the prior half year as detailed on page 21.

<sup>(3)</sup> Corporate Functions and Other includes Group Funding, NAB UK CRE, SGA, GWB and other supporting units.

## Review of Group Operations and Results

### Financial Analysis

#### March 2015 v March 2014

**Net profit attributable to owners of the Company** increased by \$584 million or 20.4% compared to the March 2014 half year. Excluding foreign exchange rate movements and specified items incurred during the March 2014 half year (detailed on the next page), net profit attributable to owners of the Company increased by \$379 million or 12.6% reflecting favourable movements in fair value and hedge ineffectiveness, higher revenue, and lower charges for bad and doubtful debts. These were partially offset by higher expenses, including a fine issued to Clydesdale Bank plc by the UK regulator, which was recognised in the March 2015 half year (\$40 million). Net profit attributable to owners of the Company (statutory net profit) is prepared in accordance with the *Corporations Act 2001* (Cth), and applicable Australian Accounting Standards.

**Cash earnings** increased by \$170 million or 5.4% compared to the March 2014 half year. Excluding foreign exchange rate movements and specified items incurred in the March 2014 half year (detailed on the next page), cash earnings decreased by \$31 million or 0.9%. This was largely driven by higher expenses, including the UK fine, which were partially offset by higher income, combined with lower charges for bad and doubtful debts.

**Cash earnings on risk-weighted assets** increased by 5 basis points, reflecting higher earnings, which were partially offset by higher risk-weighted assets.

**Net interest income** increased by \$278 million or 4.1%. Excluding foreign exchange rate movements, net interest income increased by \$186 million or 2.7% with \$60 million of the increase relating to movements in economic hedges offset in other operating income. The remaining increase was driven higher housing and business lending volumes, lower funding and deposit costs and favourable outcomes in interest rate risk management activities. This was partially offset by lower margins in both business and housing lending.

**Other operating income** increased by \$10 million or 0.4%. Excluding foreign exchange rate movements, other operating income decreased by \$33 million or 1.3%. Excluding the offset in net interest income, the underlying increase of \$27 million was largely attributable to higher insurance income from NAB Wealth, combined with gains on the sale of loans within the NAB UK Commercial Real Estate (NAB UK CRE) and Specialised Group Assets (SGA) portfolios. These impacts have been partially offset by lower transaction and lending fee income from the Group's banking businesses and lower trading income.

**Operating expenses** increased by \$4 million or 0.1%. Excluding foreign exchange rate movements and specified items incurred in the March 2014 half year (detailed on the next page), operating expenses increased by \$138 million or 3.2%. The increase reflects investment in the Group's priority customer segments, higher technology costs and Enterprise Bargaining Agreement wage increases, combined with the UK fine and transaction costs for the UK separation. These costs were partially offset by lower project spend, productivity savings and lower performance based incentives.

The **charge to provide for bad and doubtful debts** decreased by \$73 million or 13.8% (\$76 million or 14.4% excluding foreign exchange rate movements). This was primarily due to lower charges in Australian Banking and UK Banking, reflecting improvement in asset quality.

#### March 2015 v September 2014

**Net profit attributable to owners of the Company** increased by \$1,001 million or 41.0% compared to the September 2014 half year. The September 2014 result was materially affected by several specified items. As previously disclosed, \$1,344 million was 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 the specified items, which affected the September 2014 half year, can be found on the following page. Excluding foreign exchange rate movements and the impact of specified items incurred during the September 2014 half year, net profit attributable to owners of the Company decreased by \$385 million or 10.2% reflecting an unfavourable impact from the elimination of Treasury shares, higher expenses, including a fine issued to Clydesdale Bank plc by the UK regulator in the March 2015 half year (\$40 million), and higher bad and doubtful debts, partially offset by increased revenue.

**Cash earnings** increased by \$1,286 million or 63.2% compared to the September 2014 half year. Excluding foreign exchange rate movements and specified items incurred in the September 2014 half year (detailed on the next page), cash earnings decreased by \$96 million or 2.8%. This decrease was largely driven by higher expenses, including the UK fine, and higher bad and doubtful debts that were partially offset by increased revenue.

**Cash earnings on risk-weighted assets** increased by 67 basis points, largely reflecting the uplift in cash earnings in the March 2015 half year, which was partially offset by higher risk-weighted assets.

**Net interest income** increased by \$189 million or 2.7%. Excluding foreign exchange rate movements, net interest income increased by \$102 million or 1.5% due to growth in both housing lending and business lending, coupled with lower funding and deposit costs and favourable outcomes in interest rate risk management. These increases were partially offset by lower margins in both business and housing lending.

**Other operating income** increased by \$164 million or 6.6%. Excluding foreign exchange rate movements, other operating income increased by \$121 million or 4.9% mainly due to improved trading income, combined with higher operating income from NAB Wealth and gains on the sale of loans within the NAB UK CRE and SGA portfolios. These impacts have been partially offset by lower transaction and lending fee income from the Group's banking businesses.

**Operating expenses** decreased by \$1,264 million or 22.1%. Excluding foreign exchange rate movements and specified items (detailed on the next page), operating expenses increased by \$129 million or 3.0%. The increase reflects investment in the Group's priority customer segments, higher technology costs and Enterprise Bargaining Agreement wage increases combined with the UK fine and transaction costs for

the UK separation. These costs were partially offset by lower project spend, productivity savings and lower performance based incentives.

The **charge to provide for bad and doubtful debts** increased by \$106 million or 30.4% (\$103 million or 29.5% excluding foreign exchange rate movements). This increase was due to the non-recurring releases of \$50 million from the Group economic cycle adjustment and \$54 million from the NAB UK CRE overlay in the September 2014 half year.

#### Impact of Foreign Exchange Rate Movements

Excluding foreign exchange rate movements, cash earnings increased by \$129 million or 4.1% on the March 2014 half year and rose by \$1,248 million or 61.4% against the September 2014 half year. Foreign exchange rate movements have had a favourable effect of \$41 million on the March 2014 half year, and \$38 million when compared to the September 2014 half year result.

Pages 125 and 126 contain the March 2015 and September 2014 half year divisional performance summaries excluding foreign exchange rate movements.

#### Specified Items in September 2014 & March 2014

	Half year to	
	Sep 14 \$m	Mar 14 \$m
UK Conduct - IRHP	(449)	(205)
UK Conduct - PPI	(756)	-
Capitalised Software	(297)	-
R&D tax impact on opex	40	-
<b>Operating expenses impact</b>	<b>(1,462)</b>	<b>(205)</b>
Tax on Specified Items	318	45
NY DTA	(132)	-
R&D Tax credits	(68)	-
<b>Income tax expense impact</b>	<b>118</b>	<b>45</b>
<b>Cash earnings impact</b>	<b>(1,344)</b>	<b>(160)</b>

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 (\$205 million in the March 14 half and \$449 million in the September 2014 half) in relation to customer redress for interest rate hedging products (IRHP) sold in the UK
- UK Conduct charges PPI – Additional provisions of \$756 million (\$756 million in the September 2014 half) 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 in the September 2014 half year, 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 was 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 in the September 2014 half year
- 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 on the recoverability of the deferred tax assets (DTA) held in the New York (NY) branch, a DTA provision of \$132 million (US\$120 million) was taken during the September 2014 half year. The tax losses related to the DTA still remain available to the Group for up to 20 years.



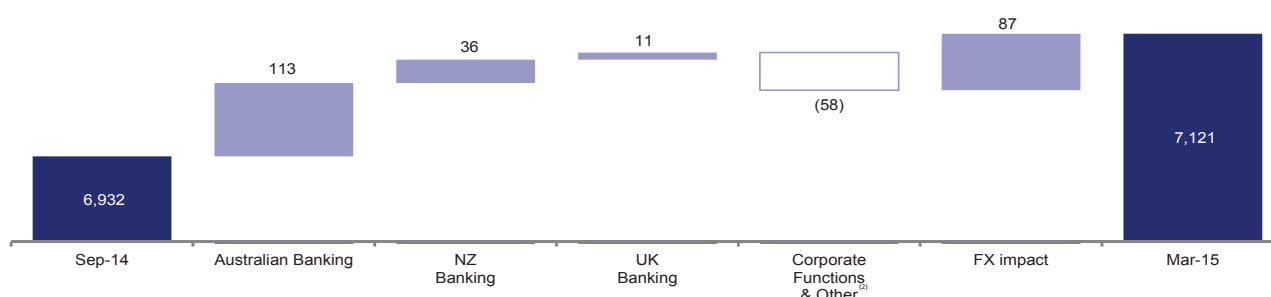
## Net Interest Income

	Half Year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15	Sep 14	Mar 14		
Net interest income (\$m)	7,121	6,932	6,843	2.7%	4.1%
Average interest earning assets (\$bn)	745.4	716.0	707.2	4.1%	5.4%
Net interest margin (%)	1.92	1.93	1.94	(1 bps)	(2 bps)

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 <sup>(1)</sup>

\$m

<sup>(1)</sup> At constant exchange rates.<sup>(2)</sup> Corporate Functions and Other includes Group Funding, NAB UK CRE, SGA, GWB, other supporting units and eliminations.

## March 2015 v March 2014

Net interest income increased by \$278 million or 4.1%. Excluding foreign exchange rate movements, net interest income increased by \$186 million or 2.7% due to the following movements:

- An increase of \$218 million in Australian Banking, with \$60 million of the increase relating to movements in economic hedges offset in other operating income. Excluding this, the increase in net interest income reflects increased housing and business lending volumes, combined with lower funding and deposit costs and favourable outcomes in interest rate risk management. This was partially offset by lower margins in both business and housing lending as a result of increased competition, combined with a lower earnings rate on capital
- An increase of \$52 million in NZ Banking driven by growth in both business and housing lending volumes, combined with lower deposit and funding costs and higher earnings on capital. These increases were partially offset by a decrease in lending margins due to margin compression from competitive market pressure
- An increase of \$10 million in UK Banking driven by higher income from housing lending and lower term deposit costs. These increases were partially offset by lower business lending income from a reduction in business lending volumes due to subdued demand for business credit and the managed run-off of lower yielding assets
- These increases were partially offset by a \$94 million decrease in Corporate Functions and Other, driven by lower interest income from Group funding and hedging activities, combined with lower income from the continued run-off of the NAB UK Commercial Real Estate (NAB UK CRE) and Specialised Group Assets (SGA) portfolios.

## March 2015 v September 2014

Net interest income increased by \$189 million or 2.7%. Excluding foreign exchange rate movements, net interest income increased by \$102 million or 1.5% due to the following movements:

- An increase of \$113 million in Australian Banking, largely reflecting continued growth in housing and business lending volumes, lower funding and deposit costs and favourable outcomes in interest rate risk management. This was partially offset by lower margins in both business and housing lending as a result of increased competition
- An increase of \$36 million in NZ Banking driven by growth in both business and housing lending volumes combined with higher earnings on capital, which was partially offset by a decrease in business lending margins as a result of competitive market pressure
- An increase of \$11 million in UK Banking driven by the timing of the Financial Services Compensation Scheme (FSCS) levy, which is incurred in the second half of each financial year. Excluding the impact of the levy, net interest income decreased by \$12 million due to lower business lending income which was partially offset by higher housing lending income
- These increases were partially offset by a \$58 million decrease in Corporate Functions and Other driven by lower income from Group funding and hedging activities, combined with lower income from the continued run-off of the NAB UK CRE and SGA portfolios.

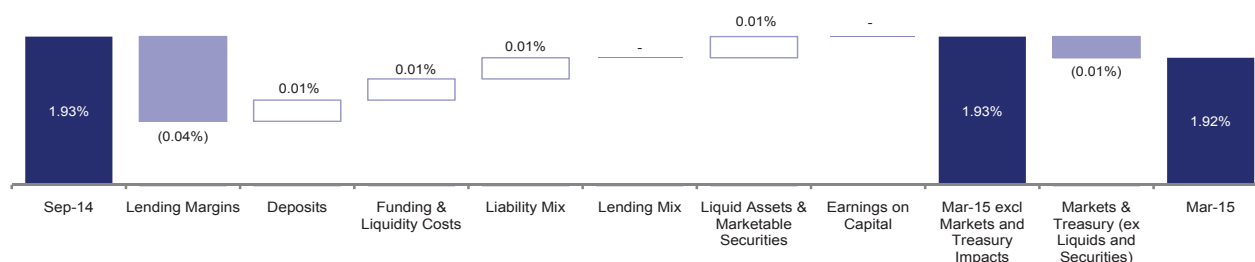
## Net Interest Margin

	Half Year to			Mar 15 v Sep 14	Mar 15 v Mar 14
	Mar 15 %	Sep 14 %	Mar 14 %		
Group net interest margin	1.92	1.93	1.94	(1 bps)	(2 bps)
Australian Banking <sup>(1)</sup>	1.60	1.61	1.63	(1 bps)	(3 bps)
NZ Banking	2.41	2.34	2.34	7 bps	7 bps
UK Banking	2.18	2.18	2.25	-	(7 bps)

<sup>(1)</sup> The Australian Banking division is described on page 46.

### Group Net Interest Margin Movement

%



#### March 2015 v March 2014

The Group's **net interest margin** decreased by two basis points compared to the March 2014 half year due to the following movements:

- A nine basis point decrease in lending margin, due to competitive market pressures affecting business lending margins in Australian Banking, coupled with margin compression in housing lending in Australian Banking and NZ Banking
- A five basis point increase relating to deposits and a one basis point increase due to lower funding and liquidity costs, owing to lower deposit and term funding costs, partially offset by a lower earnings rate on non-interest bearing deposits
- A two basis point increase from liability mix as a result of an increase in lower cost customer deposits
- A one basis point decrease from lending mix as a result of an increase in the proportion of housing lending relative to business lending
- A one basis point decrease due to a lower earnings rate on capital, reflecting the low interest rate environment
- A one basis point increase from holding a lower proportion of liquid assets and marketable debt securities relative to total average interest earning assets.

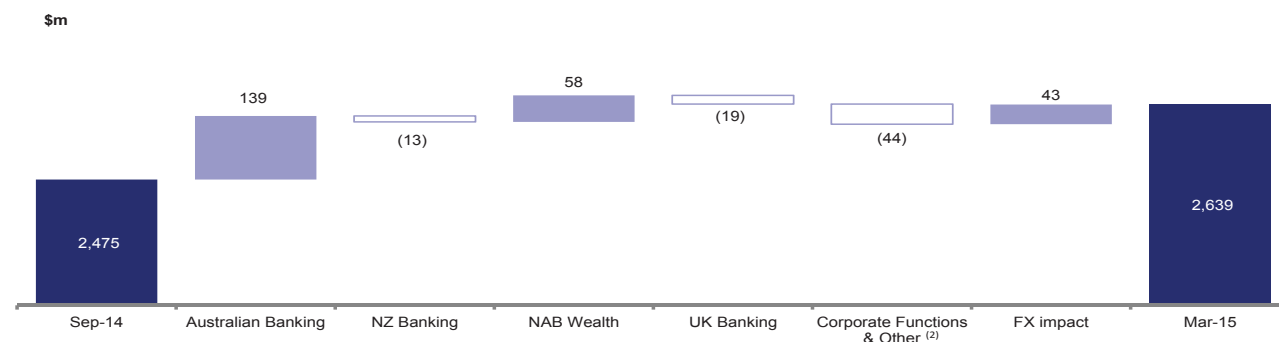
#### March 2015 v September 2014

The Group's **net interest margin** decreased by one basis point compared to the September 2014 half year due to the following movements:

- A four basis point decrease in lending margin, due to competitive market pressures affecting business lending margins in Australian Banking, coupled with margin compression in housing lending in Australian Banking and UK Banking
- A one basis point increase relating to deposits and a one basis point increase due to lower funding and liquidity costs, owing to lower deposit costs, coupled with the timing of the FSCS levy. This was partially offset by a lower earnings rate on non-interest bearing deposits
- A one basis point increase from liability mix as a result of an increase in lower cost customer deposits
- A one basis point increase from holding a lower proportion of liquid assets and marketable debt securities relative to total average interest earning assets
- A one basis point decrease in Markets and Treasury mainly from holding a higher portion of lower yielding assets for interest rate risk management activities.

## Other Operating Income

	Half Year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Fees and commissions	1,221	1,258	1,247	(2.9)	(2.1)
Trading income	456	326	566	39.9	(19.4)
Other	962	891	816	8.0	17.9
<b>Other operating income</b>	<b>2,639</b>	<b>2,475</b>	<b>2,629</b>	<b>6.6</b>	<b>0.4</b>

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

<sup>(1)</sup> At constant exchange rates.

<sup>(2)</sup> Corporate Functions & Other includes Group Funding, SGA, GWB, NAB UK CRE, other supporting units and eliminations.

## March 2015 v March 2014

**Other operating income** increased by \$10 million or 0.4% from March 2014. Excluding the impact of foreign exchange, other operating income decreased by \$33 million or 1.3%.

**Fees and commissions** decreased by \$26 million or 2.1% (decreased by \$45 million or 3.6% excluding foreign exchange). Excluding the impact of foreign exchange, the underlying decrease was due to a reduction in transaction fees and lower fee income on lending products, combined with a reduction in account fees within UK Banking.

**Trading income** decreased by \$110 million or 19.4% (\$117 million or 20.7% excluding the impact of foreign exchange). Excluding the offset in net interest income of \$60 million resulting from adverse movements in economic hedges, the underlying decrease of \$57 million was due to lower gains relating to Group funding and hedging activities compared to March 2014 half, combined with the impact of credit valuation adjustments for derivatives. This was partially offset by improved trading performance and an increase in the sales of risk management products to the Group's customers.

**Other income** increased by \$146 million or 17.9%. Excluding the impact of foreign exchange, other income increased by \$129 million or 15.8% mainly due to improved insurance claims and strong growth in FUM from the strong performance in investment markets, combined with gains on the sale of loans within the NAB UK CRE and SGA portfolios.

## March 2015 v September 2014

**Other operating income** increased by \$164 million or 6.6% from September 2014. Excluding the impact of foreign exchange, other operating income increased by \$121 million or 4.9%.

**Fees and commissions** decreased by \$37 million or 2.9% (\$56 million or 4.5% excluding foreign exchange). Excluding the impact of foreign exchange, the underlying decrease was due to a reduction in transaction and lending fee income, combined with a reduction in account fees within UK Banking.

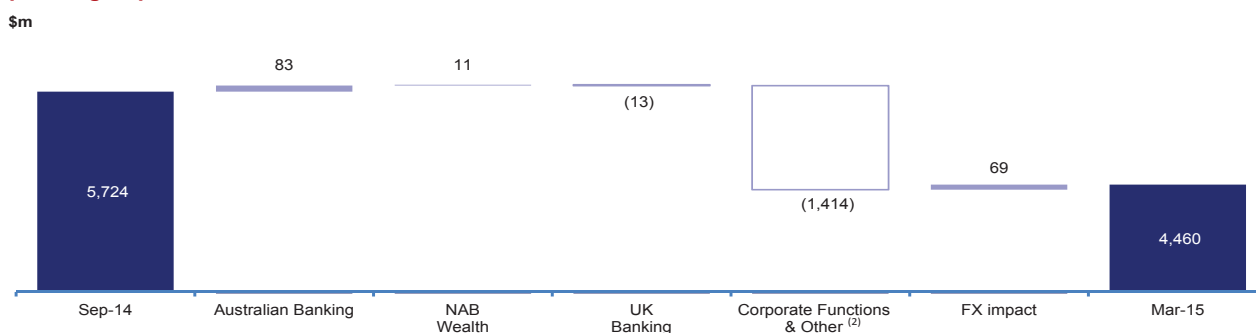
**Trading income** increased by \$130 million or 39.9% (\$124 million or 38.0% excluding the impact of foreign exchange). Excluding the impact of foreign exchange, the underlying increase was mainly as a result of improved trading performance combined with increased sales of risk management products to the Group's customers. This was partially offset by the impact of higher credit valuation adjustments for derivatives in the half.

**Other income** increased by \$71 million or 8.0%. Excluding the impact of foreign exchange, other income increased by \$53 million or 5.9% mainly due to higher insurance income as a result of stabilised claims and lapses and lower levels of insurance reserves, combined with strong growth in FUM from the performance of investment markets and net gains on the sale of loans within the NAB UK CRE and SGA portfolios.

## Operating Expenses

	Half Year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Personnel expenses	2,415	2,386	2,413	(1.2)	(0.1)
Occupancy related expenses	427	413	415	(3.4)	(2.9)
General expenses	1,618	2,925	1,628	44.7	0.6
<b>Total operating expenses</b>	<b>4,460</b>	<b>5,724</b>	<b>4,456</b>	<b>22.1</b>	<b>(0.1)</b>

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



<sup>(1)</sup> At constant exchange rates.

<sup>(2)</sup> Corporate Functions & Other includes Group Funding, SGA, GWB, NAB UK CRE, other supporting units and eliminations.

### March 2015 v March 2014

**Operating expenses** increased by \$4 million or 0.1% against March 2014. Excluding specified items incurred in the March 2014 half year (detailed on page 21) and the impact of foreign exchange, operating expenses increased by \$138 million or 3.2%.

**Personnel expenses** were broadly flat. Excluding foreign exchange, personnel expenses decreased by \$32 million or 1.3%. This decrease reflects lower project spend in the half, combined with productivity savings across the Group's businesses and lower performance based incentives. These impacts have been partially offset by investment in the Group's priority customer segments, including additional service roles to support customer needs, the hiring of additional front line business bankers and Enterprise Bargaining Agreement wage increases.

**Occupancy related expenses** increased by \$12 million or 2.9% (\$5 million or 1.2% excluding foreign exchange), reflecting property rental increases and a new data centre.

**General expenses** decreased by \$10 million or 0.6%. Excluding specified items which affected the March 2014 half (detailed on page 21) and the impact of foreign exchange, general expenses increased by \$165 million or 11.6%. The increase reflects the UK fine and transaction costs incurred for the proposed UK separation, combined with higher technology costs across the Group's businesses, investment in service capability to support priority customer segments and higher marketing costs. These costs were partially offset by lower project spend and productivity savings.

### March 2015 v September 2014

**Operating expenses** decreased by \$1,264 million or 22.1% against September 2014. Excluding specified items incurred in the September half year (detailed on page 21) and the impact of foreign exchange, operating expenses increased by \$129 million or 3.0%.

**Personnel expenses** increased by \$29 million or 1.2%. Excluding the impact of specified items which affected the September 2014 half (detailed on page 21) and foreign exchange, personnel expenses decreased by \$30 million or 1.2%. This decrease reflects lower project spend, combined with productivity savings across the Group's businesses and lower performance based incentives. These impacts have been partially offset by investment in the Group's priority customer segments, including additional service roles to support customer needs, the hiring of additional front line business bankers and Enterprise Bargaining Agreement wage increases.

**Occupancy related expenses** increased by \$14 million or 3.4%, (\$7 million or 1.7% excluding foreign exchange), reflecting property rental increases and a new data centre.

**General expenses** decreased by \$1,307 million or 44.7%. Excluding specified items which affected the September 2014 half (detailed on page 21) and the impact of foreign exchange, general expenses increased by \$152 million or 10.6%. The increase reflects the UK fine and transaction costs incurred for the proposed UK separation, combined with higher technology costs across the Group's businesses, investment in service capability to support priority customer segments and higher marketing costs. These costs were partially offset by lower project spend and productivity savings.

## Full Time Equivalent Employees

	As at			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15	Sep 14	Mar 14		
Australian Banking <sup>(1)</sup>	24,745	24,391	24,390	(1.5)	(1.5)
NZ Banking	4,737	4,718	4,719	(0.4)	(0.4)
NAB Wealth	4,932	4,840	4,836	(1.9)	(2.0)
UK Banking	7,249	7,278	7,103	0.4	(2.1)
Corporate Functions and Other <sup>(2)</sup>	1,601	1,626	1,671	1.5	4.2
<b>Total full time equivalent employees (FTEs)</b>	<b>43,264</b>	<b>42,853</b>	<b>42,719</b>	<b>(1.0)</b>	<b>(1.3)</b>
<b>Average half year FTEs</b>	<b>43,027</b>	<b>42,987</b>	<b>42,234</b>	<b>(0.1)</b>	<b>(1.9)</b>

<sup>(1)</sup> The Australian Banking division is described on page 46.

<sup>(2)</sup> Corporate Functions and Other includes SGA, GWB and NAB UK CRE. Other support function FTEs are fully attributed to the relevant business.

**March 2015 v March 2014**

Total FTEs have increased by 545 since March 2014.

Key FTE movements in each business were as follows:

- Australian Banking FTEs increased by 355, reflecting investment in the Group's priority customer segments, including service roles to support customer needs and the hiring of additional front line business bankers
- NZ Banking FTEs were relatively flat
- NAB Wealth FTEs increased by 96, largely due to business acquisitions and additional FTEs to support regulatory projects
- UK Banking FTEs increased by 146, largely due to additional conduct related roles, partially offset by efficiency savings from restructuring initiatives
- Corporate Functions and Other FTEs decreased by 70, largely due to the wind down of the NAB UK Commercial Real Estate (NAB UK CRE) operations.

**March 2015 v September 2014**

Total FTEs have increased by 411 since September 2014.

Key FTE movements in each business were as follows:

- Australian Banking FTEs increased by 354 in the March 2015 half year, reflecting investment in the Group's priority customer segments, including service roles to support customer needs and the hiring of additional front line business bankers
- NZ Banking FTEs were relatively flat in the March 2015 half year
- NAB Wealth FTEs increased by 92 in the March 2015 half year, largely due to business acquisitions and additional FTEs to support regulatory projects
- UK Banking FTEs were relatively flat in the March 2015 half year
- Corporate Functions and Other FTEs decreased by 25 in the March 2015 half year, largely due to the wind down of the NAB UK CRE operations.

## Investment Spend

	Half Year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Infrastructure	329	411	387	(20.0)	(15.0)
Compliance / Operational Risk	170	149	148	14.1	14.9
Efficiency and Sustainable Revenue	97	114	81	(14.9)	19.8
Other	12	26	28	(53.8)	(57.1)
<b>Total Investment Spend</b>	<b>608</b>	<b>700</b>	<b>644</b>	<b>(13.1)</b>	<b>(5.6)</b>

**Investment spend** is expenditure on projects 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 March 2015 half year was \$608 million, a decrease of \$36 million or 5.6% against the March 2014 half year and a decrease of \$92 million or 13.1% on the September 2014 half.

### March 2015 v March 2014

Investment in infrastructure projects decreased by \$58 million or 15.0% against the March 2014 half year. This decrease was largely due to the delivery of one of the major transformational programs in the prior year, the UBank servicing platform, and the delivery of strategic investment projects in NAB Wealth. The key investment during the March 2015 half year is the Personal Banking Origination Platform.

Spend on compliance and operational risk projects increased by \$22 million or 14.9% against the March 2014 half year, driven by investments in implementing Payment Reforms issued by the RBA, Mortgage Market Review reporting rules issued by the FCA in the UK, along with ongoing spend on meeting compliance requirements and regulatory reforms which include AML, Foreign Taxation Compliance, G20, Dodd-Frank and accounting standard changes.

Investment in efficiency and sustainable revenue projects increased by \$16 million or 19.8% against the March 2014 half year, reflecting the Group's ongoing investment in improving the customers' banking experience and mobile/internet capabilities.

### March 2015 v September 2014

Investment in infrastructure projects decreased by \$82 million or 20.0% against the September 2014 half year mainly due to progress made in delivering the transformational program in Australia during the prior year.

Spend on compliance and operational risk projects increased by \$21 million or 14.1% against the September 2014 half year, as the Group continued to meet regulatory reforms and ensure compliance.

Investment in efficiency and sustainable revenue projects decreased by \$17 million or 14.9% against the September 2014 half year. This was largely due to higher investment spend in Asia in the second half to September 2014.

## Taxation

	Half Year to			Mar 15 v Sep 14	Mar 15 v Mar 14
	Mar 15	Sep 14	Mar 14		
Income tax expense (\$m)	1,424	1,229	1,263	(15.9%)	(12.7%)
Effective tax rate (%)	29.2	36.7	28.0	750 bps	(120 bps)

### March 2015 v March 2014

**Cash earnings income tax expense** for the March 2015 half year was \$161 million or 12.7% higher than in the March 2014 half year, due to an increase in cash earnings before tax, combined with a higher effective tax rate in the current period.

The **effective income tax rate** for the March 2015 half year of 29.2% was 120 basis points higher than in the March 2014 half year due to various factors including the impact of non-deductible hybrid distributions, a change in the accounting policy for the R&D tax concession, and a non-deductible fine in the UK in relation to the handling of historic PPI complaints.

### March 2015 v September 2014

**Cash earnings income tax expense** for the March 2015 half year was \$195 million or 15.9% higher than

the September 2014 half year. Excluding the impact of specified items that affected the September 2014 half (detailed on page 21), the cash earnings income tax expense was \$254 million or 21.7% higher due to an increase in cash earnings, combined with a higher effective tax rate in the current period.

The **effective income tax rate** for the March 2015 half year of 29.2% was 750 basis points lower than the September 2014 half year. Excluding the impact of specified items on the September 2014 half (detailed on page 21), the effective tax rate increased by 40 basis points in the current period due to various factors including the impact of non-deductible hybrid distributions, a change in the accounting policy for the R&D tax concession, and a non-deductible fine in the UK in relation to the handling of historic PPI complaints.

## Lending

	As at			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	31 Mar 15 \$m	30 Sep 14 \$m	31 Mar 14 \$m		
<b>Housing</b>					
Australian Banking <sup>(1)</sup>	260,593	249,633	241,080	4.4	8.1
NZ Banking	30,768	27,298	27,949	12.7	10.1
UK Banking	38,014	34,257	30,800	11.0	23.4
Corporate Functions and Other <sup>(3)</sup>	965	851	798	13.4	20.9
Total housing	330,340	312,039	300,627	5.9	9.9
<b>Non-housing</b>					
Australian Banking <sup>(1)(2)</sup>	181,840	174,096	170,886	4.4	6.4
NZ Banking	34,072	30,070	30,931	13.3	10.2
NAB Wealth	60	59	75	1.7	(20.0)
UK Banking	16,724	17,190	17,435	(2.7)	(4.1)
Corporate Functions and Other <sup>(3)</sup>	10,454	11,907	14,218	(12.2)	(26.5)
Total non-housing	243,150	233,322	233,545	4.2	4.1
<b>Gross loans and advances including acceptances</b>	<b>573,490</b>	<b>545,361</b>	<b>534,172</b>	<b>5.2</b>	<b>7.4</b>

<sup>(1)</sup> The Australian Banking business is described on page 46.

<sup>(2)</sup> Prior periods have been restated for the adoption of new accounting standards as detailed in Note 1 'Principal Accounting Policies' on page 78.

<sup>(3)</sup> Corporate Functions and Other includes Group Funding, SGA, GWB, NAB UK CRE and other supporting units.

## March 2015 v March 2014

**Lending** (gross loans and advances including acceptances) increased by \$39.3 billion or 7.4% on March 2014.

Excluding foreign exchange, lending increased by \$28.7 billion or 5.4%. This increase was primarily due to the continuing momentum in housing lending, partly offset by the continued run-off of the NAB UK Commercial Real Estate (NAB UK CRE) portfolio.

**Housing lending** increased by \$29.7 billion or 9.9% on March 2014. Excluding foreign exchange, the increase was \$25.2 billion or 8.4% mainly due to:

- An increase of \$19.1 billion in Australian Banking, with strong growth in both the proprietary and broker channels
- An increase of \$4.6 billion in UK Banking, driven by front book growth in housing loans, primarily via the broker channel
- An increase of \$1.5 billion in NZ Banking due to continued focus on growth in the housing market as a priority customer segment.

**Non-housing lending** increased by \$9.6 billion or 4.1% on March 2014. Excluding foreign exchange, non-housing lending increased by \$3.4 billion or 1.5% mainly due to:

- An increase of \$9.0 billion in Australian Banking, reflecting an increase in the Australian business lending franchise
- An increase of \$1.7 billion in NZ Banking as a result of growth in the business lending portfolio due to continuing positive economic conditions
- A decrease of \$1.9 billion in UK Banking due to the subdued demand for credit in the UK market and the managed run-off of lower yielding assets
- A decrease of \$5.3 billion in Corporate Functions and Other due to the sale of loans within the NAB UK CRE and Specialised Group Assets (SGA) portfolios, combined with continued run-off of these portfolios.

## March 2015 v September 2014

**Lending** (gross loans and advances including acceptances) increased by \$28.1 billion or 5.2% on September 2014. Excluding foreign exchange, lending increased by \$17.0 billion or 3.1%.

**Housing lending** increased by \$18.3 billion or 5.9% on September 2014. Excluding foreign exchange, the increase was \$13.6 billion or 4.4% mainly due to:

- An increase in Australian Banking of \$10.7 billion, 1.3 times system growth for the half year. This increase was the result of strong growth in both the proprietary and broker channels
- An increase of \$2.2 billion in UK Banking, due to the strategy to focus on growth in housing loans
- An increase of \$0.7 billion in NZ Banking due to the continued focus on growth in the housing market as a priority customer segment.

**Non-housing lending** increased by \$9.8 billion or 4.2% on September 2014. Excluding foreign exchange, non-housing lending increased by \$3.5 billion or 1.5%, mainly due to:

- An increase of \$6.3 billion in Australian Banking, reflecting an increase in the Australian business lending franchise
- An increase of \$0.9 billion in NZ Banking due to continuing positive economic conditions
- A decrease of \$1.1 billion in UK Banking due to the subdued demand for credit in the UK market and the managed run-off of lower yielding assets
- A decrease of \$2.6 billion in Corporate Functions and Other due to the sale of loans within the NAB UK CRE and SGA portfolios, combined with continued run-off of these portfolios.

### Goodwill and Other Intangible Assets

Goodwill increased by \$158 million or 2.9% from September 2014. Excluding foreign exchange, goodwill increased by \$42 million or 0.8%. This increase is due to an acquisition in the NAB Wealth business.

Intangible assets comprise capitalised software and other intangible assets. Intangible assets increased by \$152 million or 6.5% from September 2014. Excluding foreign exchange, intangible assets increased by \$126 million or 5.4%. This increase was attributable to the continued investment in the transformational agenda, which focused on the Personal Banking Origination Platform in the March 2015 half year, along with efficiency and compliance projects, partially offset by amortisation and disposals.

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, which focused on the Personal Banking Origination Platform in the March 2015 half year, as well as 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 key banking systems
- In New Zealand, continued spend on capabilities to support the implementation of the BNZ strategic plan.

The movement in capitalised software is as follows:

	Half year ended		
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m
Balance at beginning of period	2,126	2,220	1,998
Additions	343	394	344
Disposals and write-offs	(23)	(339)	(1)
Amortisation	(152)	(153)	(143)
Foreign currency translation adjustments	24	4	22
<b>Capitalised software</b>	<b>2,318</b>	<b>2,126</b>	<b>2,220</b>



## Customer Deposits

	As at			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	31 Mar 15 \$m	30 Sep 14 \$m	31 Mar 14 \$m		
Australian Banking	314,577	299,197	291,741	5.1	7.8
NZ Banking	43,817	39,463	39,575	11.0	10.7
UK Banking	48,617	44,334	41,865	9.7	16.1
Corporate Functions and Other <sup>(1)</sup>	9,829	8,060	7,873	21.9	24.8
<b>Total customer deposits</b>	<b>416,840</b>	<b>391,054</b>	<b>381,054</b>	<b>6.6</b>	<b>9.4</b>

<sup>(1)</sup> Corporate Functions and Other includes Group Funding, SGA, GWB, NAB UK CRE and other supporting units.

**March 2015 v March 2014**

**Customer deposits** have increased by \$35.8 billion or 9.4% since March 2014. Excluding foreign exchange, customer deposits have increased by \$24.9 billion or 6.5%. This is a result of the Group continuing to execute on its funding plan, which includes growth in sustainable customer deposits. Growth (excluding foreign exchange) was mainly due to:

- An increase of \$18.8 billion or 6.5% in Australian Banking, reflecting continued growth in on-demand deposits of \$19.6 billion. This was partially offset by a fall in term deposits
- An increase of \$2.4 billion or 6.0% in New Zealand Banking. This was due to growth in both on-demand and short-term deposits of \$1.7 billion, as well as deposits not bearing interest of \$0.3 billion
- An increase of \$3.4 billion or 8.2% in UK Banking, driven by an increase in on demand deposits of \$4.0 billion, partially offset by a fall in term deposits.

**March 2015 v September 2014**

**Customer deposits** have increased by \$25.8 billion or 6.6% since September 2014. Excluding foreign exchange, customer deposits have increased by \$15.6 billion or 4.0%. Growth (excluding foreign exchange) was mainly attributable to:

- An increase of \$12.4 billion or 4.1% in Australian Banking as a result of growth in on-demand deposits of \$14.7 billion, partially offset by a fall in term deposits
- An increase of \$0.4 billion or 1.1% in New Zealand Banking due to continued focus on attracting higher quality personal deposits
- An increase of \$2.4 billion or 5.4% in UK Banking, driven by increases in on-demand and short-term deposits of \$2.9 billion, which was partially offset by a fall in term deposits of \$0.5 billion.

## Asset Quality

Asset Quality trends have been favourable across the Group's major operating regions over the March 2015 half year.

### Bad and Doubtful Debt Charge

	Half Year to		
	Mar 15 <sup>(1)</sup> \$m	Sep 14 \$m	Mar 14 \$m
Specific charge to provide for bad and doubtful debts	406	622	705
Collective (write-back)/charge to provide for bad and doubtful debts	49	(270)	(172)
Total (write-back)/charge on investments - held to maturity	-	(3)	(5)
<b>Total charge to provide for bad and doubtful debts</b>	<b>455</b>	<b>349</b>	<b>528</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

	Half Year to		
	Mar 15 <sup>(1)</sup>	Sep 14	Mar 14
Bad and doubtful debts charge to gross loans and acceptances (annualised)	0.16%	0.13%	0.20%
Net write-offs to gross loans and acceptances (annualised) <sup>(2)</sup>	0.22%	0.31%	0.30%

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

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

### Provisions for Bad and Doubtful Debts

	As at		
	Mar 15 <sup>(1)</sup> \$m	Sep 14 \$m	Mar 14 \$m
Collective provision for bad and doubtful debts	3,444	2,636	2,912
Specific provision for bad and doubtful debts	907	1,454	1,954
<b>Total provision for bad and doubtful debts <sup>(2)</sup></b>	<b>4,351</b>	<b>4,090</b>	<b>4,866</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

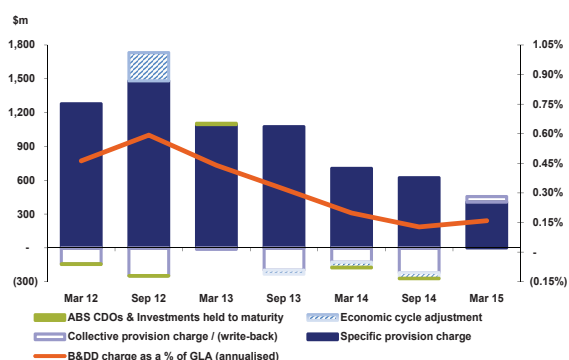
<sup>(2)</sup> Comparative period balances exclude provision on investments - held to maturity under AASB 139 (September 2014 \$26 million, March 2014 \$61 million).

	As at		
	Mar 15 <sup>(1)</sup>	Sep 14	Mar 14
Total provision to gross loans and acceptances	0.76%	0.75%	0.91%
Specific provision to gross impaired assets	35.5%	35.3%	34.8%
Collective provision to credit risk-weighted assets	1.01%	0.83%	0.91%
Collective provision to gross loans and acceptances (excluding impaired assets)	0.60%	0.49%	0.55%

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

### Bad and Doubtful Debt Charge

#### Half Yearly Total Bad and Doubtful Debt Charge



The total charge to provide for bad and doubtful debts (B&DD) for the March 2015 half year was \$455 million, an increase of \$106 million or 30% when compared to the September 2014 half year. This increase was due to the non-recurring releases of \$50 million from the Group economic cycle adjustment and \$54 million from the NAB UK Commercial Real Estate (NAB UK CRE) overlay in the September 2014 half year. The charge for the March 2015 half year was \$73 million lower than the March 2014 half year.

Specific provision B&DD charges decreased by \$216 million when compared to the September 2014 half year and decreased by \$299 million when compared to the March 2014 half year. The decline was the fifth consecutive half year improvement, as gross impaired assets further declined during the March 2015 half year.

This was driven by:

- Lower specific charges for business lending and the unsecured retail portfolio in Australian Banking
- Recoveries in UK Banking reflecting an improvement in the UK economy
- Further reductions to NAB UK CRE impaired assets.

The March 2015 half year collective provision B&DD charge was \$49 million. This includes an overlay for Australian agriculture and resource sectors as market conditions continued to tighten in these segments.

### Provisions for Bad and Doubtful Debts

Total provisions for B&DDs increased by \$261 million to \$4,351 million during the March 2015 half year, mainly due to an increase in collective provisions of \$783 million on transition to AASB 9. This was partially offset by a decrease in NAB UK CRE provisions (£262 million) resulting from loan sales in the half year.

Specific provisions decreased by \$547 million to \$907 million for the March 2015 half year, largely driven by the disposal of the NAB UK CRE loans (£177 million) and continued improvement in the performance of the Australian Banking impaired portfolio.

The Group coverage of specific provisions to gross impaired assets increased marginally from 35.3% at September 2014 to 35.5% at March 2015.

Total collective provisions have increased since September 2014 to \$3,444 million at March 2015. Excluding the impact of AASB 9 transitional adjustments and foreign exchange, there was an underlying reduction of \$48 million. This was mainly due to the sale of NAB UK CRE loans which resulted in a collective provision release, partly offset by an overlay for the agriculture and resource sectors in Australia and an increase in the potential credit exposure on the Group's derivatives portfolio driven by mark-to-market movements.

The collective provision to credit risk weighted assets ratio has increased by 18 basis points from 0.83% at September 2014 to 1.01% at March 2015. Excluding the impact of AASB 9 transitional adjustments, the collective provision coverage was seven basis points lower largely due to the sale of NAB UK CRE loans in the half.

### 90+ Days Past Due and Gross Impaired Assets

	As at		
	Mar 15	Sep 14	Mar 14
90+ days past due loans (\$m)	2,292	2,342	2,526
Gross impaired assets (\$m)	2,558	4,122	5,614
<b>90+ days past due and gross impaired assets (\$m)</b>	<b>4,850</b>	<b>6,464</b>	<b>8,140</b>

	As at		
	Mar 15	Sep 14	Mar 14
90+ days past due loans to gross loans and acceptances	0.40%	0.43%	0.47%
Gross impaired assets to gross loans and acceptances	0.45%	0.76%	1.05%
90+ days past due and gross impaired assets to gross loans and acceptances	0.85%	1.19%	1.52%

### Non-Impaired Assets 90+ Days Past Due

The Group ratio of 90+ days past due loans to gross loans and acceptances (90+ DPD ratio) declined by three basis points to 0.40% during the March 2015 half year, mainly due to the sale of NAB UK CRE loans in the half. In addition, improvements were observed in Group's business lending and retail lending 90+ DPD ratios.

### Gross Impaired Assets

The Group ratio of gross impaired assets to gross loans and acceptances (impaired asset ratio) decreased by 31 basis points to 0.45% during the March 2015 half year. The improvement was mainly driven by the business lending portfolio, reflecting the sale of NAB UK CRE impaired assets (£430 million) and a general decrease in impairment activity for Australian Banking and UK Banking.

### Net Write-Offs

The Group's net write-offs to gross loans and acceptances annualised ratio decreased by nine basis points to 0.22% during the March 2015 half year. The decline was experienced across all major operating regions, excluding UK Banking.

The 12 month rolling net write-off rate for the Group's retail portfolio decreased two basis points to 0.12% over the six months to March 2015 and declined by one basis point to 0.03% for the Group's housing portfolio.

## 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 maintain balance sheet strength.

The Group maintains a well-diversified wholesale funding portfolio by accessing a range of funding across senior, subordinated and secured debt markets, as well as the domestic retail hybrid market.

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

### Regulatory Reform

The quantitative requirements of APRA's liquidity standard, APS 210, came into force on 1 January 2015 requiring compliance with the Liquidity Coverage Ratio (LCR). Net Stable Funding Ratio (NSFR) rules are expected to be released by APRA during 2015, with implementation expected in 2018.

The Group's liquidity strategy remains focused on the quality of liquid assets and the stability of the funding that underpins the LCR.

### Other Reform Proposals

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

- APRA's notification regarding the definition of entities to be included within the Level 2 Authorised Deposit-taking Institution (ADI) Group, as previously announced on 5 May 2014. The change will remove over time the capital benefit that NAB gains from the debt on the National Wealth Management Holdings (NWMH) balance sheet, in accordance with the APRA approved transition period to December 2017. As of 31 March 2015, NWMH has \$1.75 billion of debt outstanding, which is equivalent to 44 basis points of Common Equity Tier 1 (CET1) capital
- 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 until the Australian Federal Government's response to the Financial System Inquiry is known. APRA has confirmed a minimum 12 month transition period will be provided 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 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
- APRA's proposed disclosure requirements in relation to leverage ratio, Global Systemically Important Bank (G-SIB) indicators and LCR, which have been deferred by APRA to a date to be advised. A minimum leverage ratio is yet to be determined by APRA, with Pillar 1 compliance not expected until 1 January 2018
- The Australian Federal Government's Financial System Inquiry (Inquiry). The Inquiry's Final Report was released in December 2014, followed

by a consultation period ending 31 March 2015. A number of recommendations centred on improving the resilience of the financial system including unquestionable capital strength, mortgage risk weight calibration, loss absorbing capacity requirements, harmonised capital disclosure and the introduction of a leverage ratio

- The enhanced prudential requirements for foreign banking organisations under Title I of the US Dodd-Frank Act. The final rule is expected to take effect in July 2016 and will include, among other things, additional capital, liquidity and risk management requirements
- The Basel Committee on Banking Supervision's (BCBS) review of policy requirements to improve consistency and comparability in bank capital ratios, principally including revisions to the standardised approach to calculating regulatory capital, a capital floor and the strengthening of Pillar 3 disclosure requirements. This includes the Fundamental Review of the Trading Book (FRTB), which remains in the consultative phase
- The UK Pillar 2 Framework, which is under review by the PRA. Current proposals include new approaches for determining Pillar 2 capital for credit risk, operational risk, credit concentration risk and pension obligation risk, along with proposals on the operation of the new Capital Requirements Directive (CRD) IV capital buffer framework
- The UK Government has enacted legislation to restrict the utilisation of tax losses realised by UK banks prior to 1 April 2015. This will prolong the expected period of time required to utilise deferred tax assets recognised on these tax losses. The UK Government has also announced, but has not yet enacted, a proposed tax law change that will deny UK tax deductibility for conduct compensation paid to impacted bank customers.

### Capital Management

The Group's capital management strategy is focused on adequacy, efficiency and flexibility. The capital adequacy objective ensures sufficient capital is held in excess of internal risk-based required capital assessments and regulatory requirements, and is maintained in line with the Group's balance sheet risk appetite and investor expectations. This approach is consistent across the Group's subsidiaries.

The Group's CET1 target from 1 January 2016 remains between 8.75% and 9.25%. This reflects current regulatory requirements, including the higher loss absorbency requirement of 1% for Domestic Systemically Important Banks (D-SIBs) 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 to support balance sheet strength.

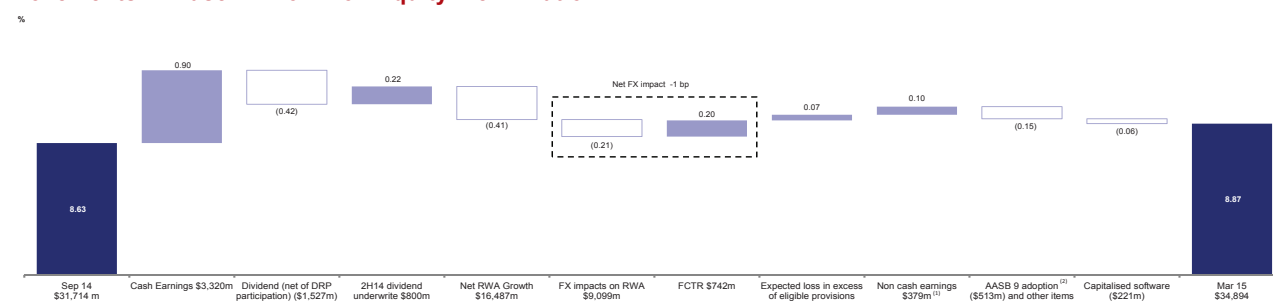
**Capital ratios**

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

Capital Ratios	As at			Mar 15 v Sep 14	Mar 15 v Mar 14
	Mar 15 %	Sep 14 %	Mar 14 %		
Common Equity Tier 1 ratio	8.87	8.63	8.64	24 bps	23 bps
Tier 1 ratio	11.13	10.81	10.83	32 bps	30 bps
Total capital ratio	12.81	12.16	12.17	65 bps	64 bps

Risk-weighted assets	As at			Mar 15 v Sep 14%	Mar 15 v Mar 14%
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Credit risk	340,227	318,374	318,339	6.9	6.9
Market risk	5,821	4,923	5,791	18.2	0.5
Operational risk	40,000	36,534	36,280	9.5	10.3
Interest rate risk in the banking book	7,190	7,821	6,814	(8.1)	5.5
<b>Total risk-weighted assets</b>	<b>393,238</b>	<b>367,652</b>	<b>367,224</b>	<b>7.0</b>	<b>7.1</b>

**Movements in Basel III Common Equity Tier 1 Ratio**

<sup>(1)</sup> Non-cash earnings impact after adjusting for distributions, treasury shares and amortisation of acquired intangibles.

<sup>(2)</sup> Partly offset by asset sales contributing 6 basis points at 31 March 2015.

**Capital Movements During the Period**

The Group's CET1 ratio was 8.87% at 31 March 2015.

The key movements in capital in the March 2015 half year include:

- Cash earnings less dividend net of dividend reinvestment plan (DRP) participation (48 basis points)
- A partial DRP underwrite of \$800 million (22 basis points)
- Favourable non-cash earnings mainly due to hedge ineffectiveness (10 basis points)
- A decrease in the expected loss less eligible provision deduction (7 basis points).

This was partly offset by;

- RWA growth of \$25.6 billion (62 basis points) comprising of \$9.1 billion of foreign exchange impacts on RWA and a net underlying RWA increase of \$16.5 billion. The underlying RWA increase mostly includes:
  - Credit Risk RWA of \$13.0 billion
  - Operational Risk RWA of \$3.5 billion
- The adoption of AASB 9 including the impact on DTA and retained earnings (13 basis points), although this has since been partially offset by asset sales contributing 6 basis points to date.

**Dividend and Dividend Reinvestment Plan**

The Group periodically adjusts the DRP to reflect the capital position and outlook. The interim dividend is 99 cents and the DRP discount has been adjusted to nil,

with no participation limit. NAB will not neutralise the new shares issued under the DRP.

**Capital Raising**

The Group has entered into an agreement to raise \$5.5 billion of CET1 capital through a pro rata accelerated renounceable rights issue with retail rights trading. The capital raising will be fully underwritten and provide additional capacity to facilitate the intended demerger and initial public offering (IPO) of Clydesdale Bank's holding company National Australia Group Europe Ltd and its subsidiaries later this calendar year, and position the Group ahead of potential near term regulatory changes, including the Financial System Inquiry. The additional capital raised will incrementally support the Group's CET1 ratio by 140 basis points, based on 31 March 2015 risk weighted assets.

**UK Defined Benefit Pension Scheme**

The Group's UK subsidiary, Clydesdale Bank plc, operates a Defined Benefit Pension Scheme ("the Scheme"). During the period 30 September 2014 to 31 March 2015, the Scheme's AASB 119 position improved by £42 million from a surplus of £49m to a surplus of £91 million and has no effect on the Group's capital position.

**Tier 1 Capital initiatives**

On 23 March 2015, NAB issued \$1.34 billion of Capital Notes, which will mandatorily convert into Ordinary

# 2015

Shares on 23 March 2022 (subject to the Mandatory Conversion Conditions being satisfied).

On 23 March 2015, NAB exercised its right to redeem US\$800 million Trust Preferred Securities II (TPS II) issued by National Capital Trust II (Delaware) and guaranteed by NAB, originally issued on 23 March 2005.

## **Tier 2 Capital Initiatives**

On 12 November 2014, NAB issued €750 million of term Subordinated Notes due 12 November 2024.

On 26 March 2015, NAB issued \$1.1 billion of term Subordinated Notes due 26 March 2025.

For both these transactions, the Subordinated Notes convert into fully paid ordinary shares of the Issuer ("Ordinary Shares") where APRA determines this to be necessary on the grounds that the Issuer would otherwise become non-viable.

## **Pillar 3 Disclosures**

Further disclosures with respect to capital adequacy and risk management will be made in the March 2015 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.

Funding indices have increased over the first half of the 2015 financial year with the Group CFI improving from 70.4% to 71.3%, while the Group SFI increased from 90.4% to 92.6%. The SFI was in part affected by a weaker Australian Dollar which has raised the value of term wholesale funding in Australian Dollar terms.

### Group Funding Indices (CFI, TFI and SFI)

Group Funding Indices	Half year to		
	Mar 15 %	Sep 14 %	Mar 14 %
Customer Funding Index	71.3	70.4	69.4
Term Funding Index	21.3	20.0	20.2
<b>Stable Funding Index</b>	<b>92.6</b>	<b>90.4</b>	<b>89.6</b>

### Customer Funding

The Group has continued to grow deposits over the first half of the 2015 financial year. Deposit raising is informed by current market conditions, funding requirements and the characteristics of funds raised.

### Term Wholesale Funding

Global funding conditions have been supportive of term issuance during the first half of 2015. 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 \$17.3 billion in the first half of the 2015 financial year (excluding NAB's Additional Tier 1 hybrid security).

During the half year to March 2015, NAB raised \$13.9 billion, including \$8.6 billion senior unsecured, \$3.1 billion of secured funding (comprising both covered bonds and residential mortgage backed securities) and \$2.2 billion of Tier 2 subordinated debt. In terms of subsidiaries, Bank of New Zealand raised \$2.1 billion and Clydesdale Bank plc raised \$1.3 billion during the March 2015 half year.

The weighted average maturity of term wholesale funding raised by the Group over the half year to 31 March 2015 was approximately 5.0 years to the first call date. The weighted average remaining maturity of the Group's term wholesale funding portfolio is 3.4 years (4.1 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 NAB over the half year was approximately 5.3 years to the first call date, compared to 5.0 years for the second half of the 2014 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 NAB (including the cost of swapping back to Australian dollars and fees) during the first half of the 2015 financial year was approximately 113 basis points (94 basis points excluding subordinated debt) over Bank Bill Swap Rate (BBSW), compared to an average cost of 75 basis points over BBSW in the second half of the 2014 financial year. The average cost of NAB's outstanding term funding portfolio for the first half of the 2015 financial year was 131 basis points over BBSW, compared to 135 basis points over BBSW for the second half of the 2014 financial year.

### Half Year 2015 Wholesale Funding by Deal Type (\$17.3 billion)

Wholesale Funding by Deal Type	As at		
	Mar 15	Sep 14	Mar 14
Senior Public Offshore	47%	42%	55%
Senior Public Domestic	7%	21%	11%
Secured Public Offshore	13%	18%	13%
Secured Public Domestic	12%	6%	9%
Private Placements	8%	13%	12%
Subordinated Debt	13%	0%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### Half Year 2015 Wholesale Funding by Currency (\$17.3 billion)

Wholesale Funding by Currency	As at		
	Mar 15	Sep 14	Mar 14
USD	16%	34%	34%
AUD	21%	29%	18%
EUR	41%	20%	22%
GBP	8%	5%	9%
JPY	7%	5%	8%
Other	7%	7%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### Short-term Wholesale Funding

The Group consistently accessed international and domestic short-term wholesale funding markets over the first half of 2015. 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.

# 2015

## 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 as at 31 March 2015 were \$125 billion (market value) excluding contingent liquidity, an increase of \$8 billion from 30 September 2014 and an increase of \$11 billion from 31 March 2014.

Holdings of liquid assets include \$104 billion of regulatory liquid assets (consisting both High Quality Liquid Assets (HQLA) and Committed Liquidity Facility eligible assets) as at end of March 2015.

In addition to these liquid assets, the Group holds internal securitisation pools of Residential Mortgage Backed Securities (RMBS) as a source of contingent liquidity. These assets may also support the Committed Liquidity Facility. Internal RMBS held at 31 March 2015 was \$40 billion (post applicable central bank haircut). This was an increase of \$6 billion from 30 September 2014 and \$15 billion from 31 March 2014.

Liquid assets that qualify for inclusion in the Group's LCR (net of applicable regulatory haircuts) were on average \$146 billion for the quarter ending 31 March 2015 resulting in an average Group LCR of 118%.

## 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).

There have been no movements in any of the Group's ratings or outlooks during the first half of the 2015 financial year.

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).



## Other Matters

### Corporate Responsibility (CR)

#### NAB 'Wealth of Opportunity'

NAB's vision is to be the most respected bank in Australia and New Zealand. Fundamental to this is creating sustainable satisfactory shareholder value. NAB 'Wealth of Opportunity' is NAB's promise to help people have a healthy relationship with money, build more prosperous communities and contribute to future focused nations.

The following outlines NAB's March half year performance in relation to these goals.

#### Healthy relationship with money

NAB is committed to ensuring customers have the confidence to manage their finances, are supported in times of hardship, and have access to fair, affordable finance. NAB's commitment extends to using its finances responsibly to generate good returns for others:

- To date, NAB has assisted more than 360,000 people with microfinance products through its partnership with Good Shepherd Microfinance. NAB is making progress on its goal to reach one million people by 2018
- NAB made progress on its community finance initiative launched in New Zealand in 2014. The pilot, a partnership between BNZ, the Ministry of Social Development, Good Shepherd NZ and The Salvation Army, has provided over \$100,000 in no or low-interest loans in its first six months of operation
- NAB launched Start Counting to its customers and suppliers, which aims to empower women with the knowledge, confidence and tools to make wise life and money decisions. In its first six months, participants are confirmed across diverse industries such as logistics, recruitment and IT
- NAB Assist has set a new benchmark in responding to customers in hardship. Process improvements have resulted in a reduction of hardship application approval periods from up to 21 days to approximately 21 minutes.

#### Prosperous communities

NAB understands that investing and lending not only have the power to deliver financial returns, but also to help communities thrive. This means investing in industries, infrastructure and businesses that are at the heart of communities to generate positive financial and social returns for all:

- NAB received the inaugural 2014 Workplace Gender Equality Agency (WGEA) Employer of Choice for Gender Equality citation
- In 2014, NAB launched an innovative space called The Village, at its 700 Bourke Street location in Melbourne. Bringing together NAB's customers and the community to learn, work and be inspired. During the March half year, The Village has grown to over 1,300 members representing 1,035 organisations
- NAB committed to lending \$1 billion a month to Australian businesses
- To date, NAB's employees have contributed 980,000 volunteer hours to the community, and is on track to achieve the mission of contributing 1 million hours by 2018

- NAB has supported over 500 students gain insight into the world of work through the 'Work Inspiration' program in Australia and launched '20 Boss' in Victoria to provide young people with the entrepreneurial skills to start a small business
- NAB remains committed to addressing Indigenous disadvantage by providing real jobs and meaningful careers in banking. Over 210 Indigenous Australians are employed by NAB as at 31 March 2015
- The MLC Community Foundation's cumulative investment in organisations addressing mental health reached \$7.3 million at the close of the March half year.

#### Future focused nation

NAB continues to consider emerging risks and opportunities so that it can invest in future-proofing its operations and supply chain, and provide products and services that help customers to do the same. This includes valuing the environment that sustains us and contributing to conversations about the issues that affect society:

- NAB launched a \$300 million Climate Bond – the first Climate Bond by an Australian issuer into the local market and the world's first bank-issued climate bond certified in compliance with the Climate Bond International Standards and Certification Scheme ('Climate Bond Standards'). Proceeds from the bond issue are ring-fenced for financing of renewable energy assets across Australia, expected to have an installed capacity of over 1.5 gigawatts of electricity in aggregate. This is the equivalent of an estimated 3.9 million tonnes of avoided greenhouse gas emissions, or, enough generated power for around 730,000 average Australian households for one year
- In partnership with Impact Investing Australia, NAB launched the NAB Impact Investment Readiness Fund. The fund aims to bridge the gap in the Australian market between mission-driven organisations in need of funding and investors actively seeking to make an impact through investment opportunities
- NAB announced an Australian-first commitment to integrate natural capital considerations into Agricultural Credit risk decisions within the next 3-5 years
- NAB continues to assist customers in managing their emerging risks and opportunities. It recently launched two solar product solutions to help customers in the agribusiness and education sectors lower their energy costs
- NAB's ongoing commitment to optimising the efficiency and sustainability of its operations was recognised during the March half year. NAB's head office at 800 Bourke Street in Melbourne was awarded Australia's first Green Star – Performance rating. Its tenancies at 700 Bourke Street Melbourne and 105 Miller Street North Sydney were certified 5 Star and 4 Star Green Star – Office Interiors v1.1 (respectively) by the Green Building Council of Australia, bringing the proportion of NAB's major commercial office area that is Green Star certified to approximately 75%.

**Section 4**

**Review of Divisional Operations and Results**

Divisional Performance Summary	40
Divisional Asset Quality Ratio Summary	43
Australian Banking	46
NZ Banking	54
NAB Wealth	58
UK Banking	62
Corporate Functions and Other	66

## Divisional Performance Summary

Half year ended 31 March 2015	Australian Banking <sup>(1)</sup> \$m	NZ Banking \$m	NAB Wealth <sup>(2)</sup> \$m	UK Banking \$m	Corporate Functions & Other <sup>(3)</sup> \$m	Distributions & Eliminations \$m	Group Cash Earnings \$m
Net interest income	5,319	751	-	728	323	-	7,121
Other operating income	1,408	215	757	174	112	(27)	2,639
IoRE	-	-	24	-	-	-	24
Net operating income	6,727	966	781	902	435	(27)	9,784
Operating expenses	(2,734)	(380)	(470)	(637)	(266)	27	(4,460)
Underlying profit/(loss)	3,993	586	311	265	169	-	5,324
Charge to provide for bad and doubtful debts	(366)	(44)	-	(44)	(1)	-	(455)
<b>Cash earnings/(deficit) before tax and distributions</b>	3,627	542	311	221	168	-	4,869
Income tax (expense)/benefit	(1,053)	(151)	(88)	(37)	(95)	-	(1,424)
<b>Cash earnings/(deficit) before distributions</b>	2,574	391	223	184	73	-	3,445
Cash earnings - non-controlling interest	-	-	-	-	(16)	-	(16)
Distributions	-	-	-	-	-	(109)	(109)
<b>Cash earnings/(deficit)</b>	2,574	391	223	184	57	(109)	3,320
<b>Key balance sheet items (\$bn)</b>							<b>Total</b>
Gross loans and acceptances (average)	432.8	60.8	-	52.7	11.8	-	558.1
Customer deposits (average)	308.9	41.8	-	45.7	8.9	-	405.3
Total risk-weighted assets (spot)	272.5	46.0	-	46.8	28.0	-	393.3

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

<sup>(2)</sup> Excludes Private Wealth (formerly part of NAB Wealth).

<sup>(3)</sup> Corporate Functions & Other includes Group Funding, SGA, GWB, NAB UK CRE and other supporting units.

## Divisional Performance Summary

Half year ended 30 September 2014	Australian Banking <sup>(1)</sup> \$m	NZ Banking \$m	NAB Wealth <sup>(2)</sup> \$m	UK Banking \$m	Corporate Functions & Other <sup>(3)</sup> \$m	Distributions & Eliminations \$m	Group Cash Earnings \$m
Net interest income	5,191	701	-	685	355	-	6,932
Other operating income	1,253	224	698	188	141	(29)	2,475
IoRE	-	-	19	-	-	-	19
Net operating income	6,444	925	717	873	496	(29)	9,426
Operating expenses	(2,632)	(373)	(459)	(622)	(1,667)	29	(5,724)
Underlying profit/(loss)	3,812	552	258	251	(1,171)	-	3,702
(Charge to provide for)/write-back of bad and doubtful debts	(366)	(42)	-	(45)	104	-	(349)
<b>Cash earnings/(deficit) before tax and distributions</b>	3,446	510	258	206	(1,067)	-	3,353
Income tax (expense)/benefit	(973)	(137)	(67)	(53)	1	-	(1,229)
<b>Cash earnings/(deficit) before distributions</b>	2,473	373	191	153	(1,066)	-	2,124
Distributions	-	-	-	-	-	(90)	(90)
<b>Cash earnings/(deficit)</b>	2,473	373	191	153	(1,066)	(90)	2,034
<b>Key balance sheet items (\$bn)</b>							<b>Total</b>
Gross loans and acceptances (average)	417.0	58.3	-	48.8	13.4	-	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	30.6	-	367.7

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

<sup>(2)</sup> Excludes Private Wealth (formerly part of NAB Wealth).

<sup>(3)</sup> Corporate Functions & Other includes Group Funding, SGA, GWA, NAB UK CRE and other supporting units.

Divisional Performance Summary

Half year ended 31 March 2014	Australian Banking <sup>(1)</sup> \$m	NZ Banking \$m	NAB Wealth <sup>(2)</sup> \$m	UK Banking \$m	Corporate Functions & Other <sup>(3)</sup> \$m	Distributions & Eliminations \$m	Group Cash Earnings \$m
Net interest income	5,086	681	-	682	394	-	6,843
Other operating income	1,387	225	708	188	151	(30)	2,629
IoRE	-	-	15	-	-	-	15
Net operating income	6,473	906	723	870	545	(30)	9,487
Operating expenses	(2,635)	(364)	(491)	(611)	(385)	30	(4,456)
Underlying profit/(loss)	3,838	542	232	259	160	-	5,031
Charge to provide for bad and doubtful debts	(375)	(38)	-	(100)	(15)	-	(528)
<b>Cash earnings/(deficit) before tax and distributions</b>	3,463	504	232	159	145	-	4,503
Income tax (expense)/benefit	(989)	(139)	(58)	(28)	(49)	-	(1,263)
<b>Cash earnings/(deficit) before distributions</b>	2,474	365	174	131	96	-	3,240
Distributions	-	-	-	-	-	(90)	(90)
<b>Cash earnings/(deficit)</b>	2,474	365	174	131	96	(90)	3,150
<b>Key balance sheet items (\$bn)</b>							<b>Total</b>
Gross loans and acceptances (average)	409.3	57.0	-	47.9	15.8	-	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	32.7	-	367.2

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

<sup>(2)</sup> Excludes Private Wealth (formerly part of NAB Wealth).

<sup>(3)</sup> Corporate Functions & Other includes Group Funding, SGA, GWB, NAB UK CRE and other supporting units.

## Divisional Asset Quality Ratio Summary

As at 31 March 2015 <sup>(2)</sup>	Australian Banking <sup>(1)</sup> %	NZ Banking %	UK Banking %	Group %
90+DPD to gross loans and acceptances	0.39	0.31	0.61	0.40
Gross impaired assets to gross loans and acceptances	0.37	0.46	0.99	0.45
90+DPD plus gross impaired assets to gross loans and acceptances	0.76	0.77	1.60	0.85
Specific provision to gross impaired assets	32.8	49.0	36.4	35.5
Collective provision to credit risk weighted assets	0.92	0.75	1.26	1.01
Total provision to gross loans and acceptances	0.63	0.71	1.18	0.76
Net write-offs to gross loans and acceptances (annualised) <sup>(3),(4)</sup>	0.21	0.08	0.45	0.22
Total provisions to net write-offs (annualised) <sup>(3),(4)</sup>	305	896	259	337
Bad and doubtful debt charge to gross loans and acceptances (annualised) <sup>(4)</sup>	0.17	0.14	0.17	0.16

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

<sup>(2)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(3)</sup> Net write-offs include net write-offs of fair value loans.

<sup>(4)</sup> March 2015 metrics refer to the March half year ratio annualised.

As at 30 September 2014	Australian Banking <sup>(1)</sup> %	NZ Banking %	UK Banking %	Group %
90+DPD to gross loans and acceptances	0.40	0.32	0.66	0.43
Gross impaired assets to gross loans and acceptances	0.52	0.44	1.35	0.76
90+DPD plus gross impaired assets to gross loans and acceptances	0.92	0.76	2.01	1.19
Specific provision to gross impaired assets	31.7	42.9	37.6	35.3
Collective provision to credit risk weighted assets	0.66	0.67	0.95	0.83
Total provision to gross loans and acceptances	0.52	0.62	1.15	0.75
Net write-offs to gross loans and acceptances (annualised) <sup>(2),(3)</sup>	0.24	0.23	0.43	0.30
Total provisions to net write-offs (annualised) <sup>(2),(3)</sup>	218	265	268	248
Bad and doubtful debt charge to gross loans and acceptances (annualised) <sup>(3)</sup>	0.17	0.14	0.29	0.16

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

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

<sup>(3)</sup> September 2014 metrics refer to the full year ratio.

## Divisional Asset Quality Ratio Summary

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

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

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Australian Banking <sup>(1)</sup>

Antony Cahill, Angela Mentis, Gavin Slater, Renée Roberts

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 Retail and Business Banking franchises, Fixed Income, Currencies and Commodities (FICC), Capital Financing, Asset Servicing and Treasury.

	Half Year to			Mar 15 <sup>(2)</sup> v Sep 14 %	Mar 15 <sup>(2)</sup> v Mar 14 %
	Mar 15 <sup>(2)</sup> \$m	Sep 14 \$m	Mar 14 \$m		
Net interest income	5,319	5,191	5,086	2.5	4.6
Other operating income	1,408	1,253	1,387	12.4	1.5
<b>Net operating income</b>	<b>6,727</b>	<b>6,444</b>	<b>6,473</b>	<b>4.4</b>	<b>3.9</b>
Operating expenses	(2,734)	(2,632)	(2,635)	(3.9)	(3.8)
<b>Underlying profit</b>	<b>3,993</b>	<b>3,812</b>	<b>3,838</b>	<b>4.7</b>	<b>4.0</b>
Charge to provide for bad and doubtful debts	(366)	(366)	(375)	-	2.4
<b>Cash earnings before tax</b>	<b>3,627</b>	<b>3,446</b>	<b>3,463</b>	<b>5.3</b>	<b>4.7</b>
Income tax expense	(1,053)	(973)	(989)	(8.2)	(6.5)
<b>Cash earnings</b>	<b>2,574</b>	<b>2,473</b>	<b>2,474</b>	<b>4.1</b>	<b>4.0</b>

**Average Volumes (\$bn)**

Housing lending	254.8	244.7	237.4	4.1	7.3
Business lending	168.0	162.5	162.6	3.4	3.3
Other lending	10.0	9.8	9.3	2.0	7.5
Gross loans and acceptances	432.8	417.0	409.3	3.8	5.7
Interest earning assets	667.2	641.1	625.0	4.1	6.8
Total assets	737.7	687.0	666.9	7.4	10.6
Customer deposits	308.9	301.5	295.6	2.5	4.5

**Capital (\$bn)**

Risk-weighted assets - credit risk (spot)	244.5	226.0	222.4	8.2	9.9
Total risk-weighted assets (spot)	272.5	252.0	248.0	8.1	9.9

**Performance Measures**

Cash earnings on average assets	0.70%	0.72%	0.74%	(2 bps)	(4 bps)
Cash earnings on average risk-weighted assets	1.97%	1.96%	2.00%	1 bps	(3 bps)
Net interest margin	1.60%	1.61%	1.63%	(1 bps)	(3 bps)
Cost to income ratio	40.6%	40.8%	40.7%	20 bps	10 bps
'Jaws'	0.5%	(0.3%)	(4.1%)	80 bps	460 bps
Cash earnings per average FTE (\$'000s)	210	202	207	4.0	1.4
FTEs (spot) <sup>(3)</sup>	24,745	24,391	24,390	(1.5)	(1.5)

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

<sup>(2)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(3)</sup> FTEs includes FTEs attributable to Corporate Functions.

Market Share	As at		
	Mar 15	Sep 14	Mar 14
Business lending <sup>(1)</sup>	22.3%	22.6%	22.8%
Business lending <sup>(2)</sup>	21.3%	21.2%	21.6%
Business deposits <sup>(1)</sup>	20.3%	20.1%	20.6%
Housing lending <sup>(2)</sup>	15.6%	15.5%	15.4%
Household deposits <sup>(1)</sup>	14.8%	14.7%	14.8%

Distribution	As at		
	Mar 15	Sep 14	Mar 14
Number of stores, kiosks and business banking centres	852	862	861
Number of ATMs	3,034	3,068	3,113
Number of internet banking customers (million)	3.39	3.22	2.92

<sup>(1)</sup> Source: APRA Banking System.

<sup>(2)</sup> Source: RBA Financial System.

## Australian Banking

### Financial Analysis

#### March 2015 v March 2014

**Cash earnings** increased by \$100 million or 4.0% against the March 2014 half year (excluding foreign exchange impacts cash earnings increased by \$89 million or 3.6%), driven by higher net operating income, partially offset by higher expenses.

**Cash earnings on average assets** decreased by four basis points as average asset growth, driven by housing and business lending volume increases, outpaced the growth in cash earnings reflecting lower margins in the banking business.

**Cash earnings on risk weighted assets** decreased by three basis points as risk-weighted asset growth outpaced the growth in cash earnings reflecting lower margins in the banking business.

**Net interest income** increased by \$233 million or 4.6% (\$218 million or 4.3% excluding foreign exchange) with \$60 million being offset by adverse movements in economic hedges in other operating income. These movements relate to interest rate risk management activities within the funding, liquidity and banking book. Excluding this, net interest income increased by \$173 million largely reflecting increased housing and business lending volumes, combined with lower funding and deposit costs and favourable outcomes in interest rate risk management. This was partially offset by lower business and housing lending margins, as well as a lower earnings rate on capital.

**Average interest earning assets** increased by \$42.2 billion or 6.8%, largely 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 \$13.3 billion or 4.5% mainly as a result of an increase in on-demand deposits.

**Net interest margin** decreased by three basis points as a result of competitive pressure on customer pricing and the lending mix, partially offset by lower funding costs.

**Other operating income** increased by \$21 million or 1.5% (\$6 million or 0.4% excluding foreign exchange). The result includes \$60 million adverse movement in economic hedges, offset in net interest income. The underlying increase of \$81 million was a result of an increase in the sales of risk management products to the Group's customers, partially offset by the impact of valuation adjustments on derivatives in the half.

**Operating expenses** increased by \$99 million or 3.8% (\$82 million or 3.1% excluding foreign exchange), mainly due to investment in the Group's priority customer segments, including additional service roles to support customer needs and the hiring of additional front line business bankers. These costs were combined with Enterprise Bargaining Agreement wage increases and an increase in technology costs, partially offset by lower performance based incentives, productivity savings and lower project spend.

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 due to lower specific charges

for business lending and the unsecured retail portfolio, that were partially offset by lower write-backs in collective provisions and an overlay for the agriculture and resource sectors.

#### March 2015 v September 2014

**Cash earnings** increased by \$101 million or 4.1% against the September 2014 half (excluding foreign exchange impacts cash earnings increased by \$91 million or 3.7%), driven by higher net operating income, partially offset by higher expenses.

**Cash earnings on average assets** decreased by two basis points reflecting lower margins in the banking business.

**Cash earnings on risk weighted assets** increased by one basis point as cash earnings growth outpaced the growth in the risk-weighted assets.

**Net interest income** increased by \$128 million or 2.5% (\$113 million or 2.2% excluding foreign exchange). The increase largely reflects continued growth in housing and business lending volumes, lower funding and deposit costs and favourable outcomes in interest rate risk management. This was partially offset by lower business and housing lending margins.

**Average interest earning assets** increased by \$26.1 billion or 4.1%, largely 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 \$7.4 billion or 2.5% mainly as a result of an increase in on-demand deposits.

**Net interest margin** decreased by one basis point as a result of competitive pressure on customer pricing and lending mix, partially offset by lower funding costs.

**Other operating income** increased by \$155 million or 12.4% (\$139 million or 11.1% excluding foreign exchange). The increase was a result of improved trading performance combined with increased sales of risk management products to the Group's customers, partially offset by the impact of valuation adjustments on derivatives in the half and lower other banking fee income.

**Operating expenses** increased by \$102 million or 3.9% (\$83 million or 3.2% excluding foreign exchange), mainly due to investment in the Group's priority customer segments, including additional service roles to support customer needs and the hiring of additional front line business bankers. These costs were combined with Enterprise Bargaining Agreement wage increases and an increase in technology costs, partially offset by lower performance based incentives, productivity savings and lower project spend.

The **charge to provide for bad and doubtful debts** remained flat when compared to the September 2014 half year. This was due to lower specific charges for business lending and the unsecured retail portfolio, offset by lower write-backs in collective provisions and an overlay for the agriculture and resource sectors.

## Australian Banking

## Net Interest Income

	Half year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Housing lending	1,687	1,659	1,610	1.7	4.8
Business lending	1,771	1,772	1,805	(0.1)	(1.9)
Other banking products <sup>(1)</sup>	444	422	445	5.2	(0.2)
Customer deposits	921	899	820	2.4	12.3
NAB risk management	496	439	406	13.0	22.2
<b>Total net interest income</b>	<b>5,319</b>	<b>5,191</b>	<b>5,086</b>	<b>2.5</b>	<b>4.6</b>

<sup>(1)</sup> Other banking products includes personal lending, credit cards, investment securities and margin lending.

## Lending Margins

	Half year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 %	Sep 14 %	Mar 14 %		
Australian Banking net interest margin	1.60%	1.61%	1.63%	(1 bps)	(3 bps)
Housing lending margin	1.33%	1.35%	1.36%	(2 bps)	(3 bps)
Business lending margin	2.11%	2.17%	2.23%	(6 bps)	(12 bps)

## March 2015 v March 2014

**Net interest income** increased by \$233 million or 4.6% (\$218 million or 4.3% excluding foreign exchange) against the March 2014 half.

**Housing lending net interest income** increased by \$77 million or 4.8% driven by volume increases combined with lower funding costs, partially offset by competitive pressure on pricing.

**Housing lending margin** decreased by three basis points as a result of the factors set out above.

**Business lending net interest income** decreased by \$34 million or 1.9% driven by competitive pressure on customer pricing combined with lower earnings on capital, partially offset by increased volumes and lower funding costs.

**Business lending margin** decreased by 12 basis points as a result of competitive pressure on customer pricing and lending mix, partially offset by lower funding costs.

**Other banking products net interest income** decreased by \$1 million or 0.2% due to competitive pressures on customer pricing in the unsecured lending portfolio, partially offset by volume growth.

**Customer deposits net interest income** increased by \$101 million or 12.3% due to volume growth and repricing of on-demand and term deposit products.

**NAB risk management net interest income** increased by \$90 million or 22.2%. The result includes a \$60 million gain, which is offset by adverse movements on economic hedges in other operating income. The underlying increase of \$30 million was mainly as a result of favourable outcomes in interest rate risk management.

## March 2015 v September 2014

**Net interest income** increased by \$128 million or 2.5% (\$113 million or 2.2% excluding foreign exchange) against the September 2014 half.

**Housing lending net interest income** increased by \$28 million or 1.7% driven by volume increases combined with lower funding costs, partially offset by competitive pressure on pricing.

**Housing lending margin** decreased by two basis points as a result of the factors set out above.

**Business lending net interest income** decreased by \$1 million or 0.1% driven by competitive pressure on customer pricing, partially offset by volume growth and lower funding costs.

**Business lending margin** decreased by 6 basis points as a result of competitive pressure on customer pricing, partially offset by lower funding costs.

**Other banking products net interest income** increased by \$22 million or 5.2% due to higher non-lending income and volume growth partially offset by competitive pressure on customer pricing in the unsecured lending portfolio.

**Customer deposits net interest income** increased by \$22 million or 2.4% driven by increased volumes and repricing of on-demand and term deposit products.

**NAB risk management net interest income** increased by \$57 million or 13.0%. The increase is mainly as a result of favourable outcomes in interest rate risk management.

## Australian Banking

## Other Operating Income

	Half year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Housing lending	131	133	133	(1.5)	(1.5)
Business lending	276	267	282	3.4	(2.1)
Other banking products <sup>(1)</sup>	459	484	440	(5.2)	4.3
Customer deposits	43	45	48	(4.4)	(10.4)
Customer risk management	414	414	376	-	10.1
NAB risk management	85	(90)	108	large	(21.3)
<b>Total other operating income</b>	<b>1,408</b>	<b>1,253</b>	<b>1,387</b>	<b>12.4</b>	<b>1.5</b>

<sup>(1)</sup> Other banking products includes personal lending, credit cards, investment securities and margin lending.

	Half year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Fees and commissions	831	872	841	(4.7)	(1.2)
Trading income	449	296	484	51.7	(7.2)
Other	128	85	62	50.6	large
<b>Total other operating income</b>	<b>1,408</b>	<b>1,253</b>	<b>1,387</b>	<b>12.4</b>	<b>1.5</b>

## March 2015 v March 2014

**Other operating income** increased by \$21 million or 1.5% compared to the March 2014 half year (\$6 million or 0.4% excluding foreign exchange).

**Housing lending income** decreased by \$2 million or 1.5% on the March 2014 half.

**Business lending income** decreased by \$6 million or 2.1% as a result of lower fees due to competitive market pressures.

**Other banking products income** increased by \$19 million or 4.3% primarily as a result of increased unsecured lending fees and growth in nabtrade.

**Customer deposits income** decreased by \$5 million or 10.4% as a result of lower account fees.

**Customer risk management income** increased by \$38 million or 10.1% as a result of an increase in the sales of risk management products to the Group's customers, partially offset by the impact of credit valuation adjustments on derivatives.

**NAB risk management income** decreased by \$23 million or 21.3% inclusive of a \$60 million decrease relating to adverse movements on economic hedges, offset in net interest income. The underlying increase of \$37 million is mainly as a result of improved trading performance and a gain on the sale of investments, which were partially offset by the impact of credit valuation adjustments on derivatives.

## March 2015 v September 2014

**Other operating income** increased by \$155 million or 12.4% compared to the September 2014 half year (\$139 million or 11.1% excluding foreign exchange).

**Housing lending income** decreased by \$2 million or 1.5% on the September 2014 half.

**Business lending income** increased by \$9 million or 3.4% as a result of increased fees and transactions on non-core lending.

**Other banking products income** decreased by \$25 million or 5.2% as a result of a reduction in transaction and unsecured lending fees combined with a reduction in non-lending income.

**Customer deposits income** decreased by \$2 million or 4.4% as a result of lower account fees.

**Customer risk management income** remained flat when compared to the September 2014 half as a result of an increase in sale of risk management products to the Group's customers, offset by the impact of credit valuation adjustments on derivatives.

**NAB risk management income** increased by \$175 million mainly due to the improved trading performance and a gain on sale of investments in the half.

## Australian Banking

## Operating Expenses

	Half year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Personnel expenses	1,562	1,535	1,504	(1.8)	(3.9)
Occupancy related expenses	261	252	257	(3.6)	(1.6)
General expenses	911	845	874	(7.8)	(4.2)
<b>Total operating expenses</b>	<b>2,734</b>	<b>2,632</b>	<b>2,635</b>	<b>(3.9)</b>	<b>(3.8)</b>

## March 2015 v March 2014

**Operating expenses** increased by \$99 million or 3.8% against the March 2014 half (\$82 million or 3.1% excluding foreign exchange).

**Personnel expenses** increased by \$58 million or 3.9% (\$46 million or 3.1% excluding foreign exchange). This was driven by investment in the Group's priority customer segments, including additional service roles to support customer needs and the hiring of additional front line business bankers, combined with Enterprise Bargaining Agreement wage increases. These costs were partially offset by lower performance based incentives, productivity savings and lower project spend in the half.

**Occupancy related expenses** increased by \$4 million or 1.6% driven by property rental increases and a new data centre.

**General expenses** increased by \$37 million or 4.2% (\$32 million or 3.7% excluding foreign exchange), driven by higher technology costs, combined with investment in service capability to support priority customer segments and higher marketing costs. These costs have been partially offset by productivity savings and lower project spend in the half.

## March 2015 v September 2014

**Operating expenses** increased by \$102 million or 3.9% compared to the September 2014 half year (\$83 million or 3.2% excluding foreign exchange).

**Personnel expenses** increased by \$27 million or 1.8% (\$15 million or 1.0% excluding foreign exchange). This was driven by investment in the Group's priority customer segments, including additional service roles to support customer needs and the hiring of additional front line business bankers. These were combined with Enterprise Bargaining Agreement wage increases, partially offset by lower performance based incentives, productivity savings and lower project spend in the half.

**Occupancy related expenses** increased by \$9 million or 3.6% driven by property rental increases and a new data centre.

**General expenses** increased by \$66 million or 7.8% (\$60 million or 7.1% excluding foreign exchange), driven by higher technology costs, combined with investment in service capability to support priority customer segments, higher marketing costs and the non-reoccurrence of prior half GST and third party rebates. These costs have been partially offset by productivity savings and lower project spend in the half.

Australian Banking

Bad and Doubtful Debt Charge

	Half Year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Specific charge to provide for bad and doubtful debts	289	457	428	36.8	32.5
Collective (write-back)/charge to provide for bad and doubtful debts	77	(91)	(53)	large	large
<b>Total charge to provide for bad and doubtful debts</b>	<b>366</b>	<b>366</b>	<b>375</b>	-	2.4
Housing Lending	37	27	23	(37.0)	(60.9)
Business Lending	229	258	214	11.2	(7.0)
Other banking products <sup>(1)</sup>	100	81	138	(23.5)	27.5
<b>Total charge to provide for bad and doubtful debts</b>	<b>366</b>	<b>366</b>	<b>375</b>	-	2.4

<sup>(1)</sup> Other banking products includes personal lending, credit cards, investment securities and margin lending.

March 2015 v March 2014

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

- Lower specific charges for business lending due to lower impairment activity
- Lower write-offs in the unsecured retail portfolio.

Partly offset by:

- Lower write-backs in collective provisions due to relatively stable asset quality across both business and retail lending
- An overlay for the agriculture and resource sectors, as market conditions continue to tighten in these segments.

March 2015 v September 2014

The charge to provide for bad and doubtful debts remained flat when compared to the September 2014 half year. This was primarily driven by:

- Lower specific charges for business lending and the unsecured retail portfolio.

Offset by:

- Lower write-backs in collective provisions in both business and retail lending
- An overlay for the agriculture and resource sectors, as market conditions continue to tighten in these segments.

## Australian Banking

## Asset Quality

	Half Year to		
	Mar 15 <sup>(1)</sup>	Sep 14	Mar 14
Specific provision for doubtful debts (\$m)	532	698	798
Collective provision for doubtful debts (\$m)	1,884	973	1,074
Collective provision on loans at fair value (\$m)	119	357	251
Collective provision on derivatives at fair value (\$m)	238	155	155
90+DPD assets (\$m)	1,731	1,695	1,634
Gross impaired assets (\$m)	1,621	2,200	2,625
90+DPD assets to gross loans and acceptances	0.39%	0.40%	0.40%
Gross impaired assets to gross loans and acceptances	0.37%	0.52%	0.64%
90+DPD assets plus gross impaired assets to gross loans and acceptances	0.76%	0.92%	1.04%
Specific provision to gross impaired assets	32.8%	31.7%	30.4%
Net write-offs to gross loans and acceptances (annualised) <sup>(2)</sup>	0.21%	0.24%	0.22%
Total provision as a percentage of net write-offs (annualised) <sup>(2)</sup>	305%	218%	252%
Total provision to gross loans and acceptances	0.63%	0.52%	0.55%
Bad and doubtful debt charge to gross loans and acceptances (annualised) <sup>(2)</sup>	0.17%	0.17%	0.18%

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(2)</sup> March 2015 and 2014 metrics refer to the half year ratio annualised, the September 2014 metrics refer to the full year ratio.

For the March 2015 half year, the asset quality of the Australian Banking portfolio has continued to improve.

Over the March 2015 half year the ratio of 90+DPD assets plus gross impaired assets to gross loans and acceptances improved by 16 basis points to 0.76%. The reduction was primarily driven by the performance of the business lending portfolio.

Total provisions to gross loans and acceptances increased by 11 basis points to 0.63% from the September 2014 half year and by eight basis points against the March 2014 half year.

Total collective provisions increased by \$756 million against the September 2014 half year to \$2,241 million. This was largely driven by the adoption of AASB 9 in the March 2015 half year, combined with an overlay for the agriculture and resource sectors and an increase in the potential credit exposures on the derivatives portfolio due to mark-to-market movements.

Specific provisions decreased against both the March 2014 half year and the September 2014 half year to \$532 million. This was due to a continued reduction in the level of gross impaired assets for business lending.

The coverage of specific provisions to gross impaired assets increased by 110 basis points to 32.8% during the March 2015 half year.

During the March 2015 half year, the ratio of the bad and doubtful debt charge to gross loans and acceptances remained stable at 0.17%.

Australian Banking

Net Operating Income Analysis

	Half year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
<b>By Product</b>					
Housing Lending	1,818	1,792	1,743	1.5	4.3
Business Lending	2,047	2,039	2,087	0.4	(1.9)
Other banking products <sup>(1)</sup>	903	906	885	(0.3)	2.0
Customer deposits	964	944	868	2.1	11.0
Customer risk management	414	414	376	-	10.1
NAB risk management	581	349	514	66.5	13.0
<b>Net operating income</b>	<b>6,727</b>	<b>6,444</b>	<b>6,473</b>	<b>4.4</b>	<b>3.9</b>

<sup>(1)</sup> Other banking products includes personal lending, credit cards, investment securities and margin lending.

	Half year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
<b>By Customer <sup>(1)</sup></b>					
Personal Banking	2,225	2,188	2,076	1.7	7.2
Business Banking	3,921	3,907	3,883	0.4	1.0
NAB risk management	581	349	514	66.5	13.0
<b>Net Operating Income</b>	<b>6,727</b>	<b>6,444</b>	<b>6,473</b>	<b>4.4</b>	<b>3.9</b>

<sup>(1)</sup> Customer revenue numbers for 2014 have been restated to reflect the transfer of customers between Business Banking and Personal Banking, consistent with where customers were domiciled in the March 2015 half year.

Bad and Doubtful Debt Charge

	Half year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Personal Banking	124	96	141	29.2	12.1
Business Banking	242	270	234	(10.4)	(3.4)
<b>Total charge to provide for doubtful debts</b>	<b>366</b>	<b>366</b>	<b>375</b>	<b>-</b>	<b>2.4</b>



## 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 57 for results in \$AUDm and page 124 for foreign exchange rates.

	Half Year to			Mar 15 <sup>(1)</sup> v Sep 14 %	Mar 15 <sup>(1)</sup> v Mar 14 %
	Mar 15 <sup>(1)</sup> NZ\$m	Sep 14 NZ\$m	Mar 14 NZ\$m		
Net interest income	804	765	746	5.1	7.8
Other operating income	230	244	248	(5.7)	(7.3)
<b>Net operating income</b>	<b>1,034</b>	<b>1,009</b>	<b>994</b>	<b>2.5</b>	<b>4.0</b>
Operating expenses	(407)	(406)	(400)	(0.2)	(1.8)
<b>Underlying profit</b>	<b>627</b>	<b>603</b>	<b>594</b>	<b>4.0</b>	<b>5.6</b>
Charge to provide for bad and doubtful debts	(46)	(46)	(41)	-	(12.2)
<b>Cash earnings before tax</b>	<b>581</b>	<b>557</b>	<b>553</b>	<b>4.3</b>	<b>5.1</b>
Income tax expense	(163)	(150)	(153)	(8.7)	(6.5)
<b>Cash earnings</b>	<b>418</b>	<b>407</b>	<b>400</b>	<b>2.7</b>	<b>4.5</b>
<b>Average Volumes (NZ\$bn)</b>					
Gross loans and acceptances	65.0	63.5	62.5	2.4	4.0
Interest earning assets	67.0	65.2	64.1	2.8	4.5
Total assets	67.7	65.9	63.9	2.7	5.9
Customer deposits	44.8	43.4	41.7	3.2	7.4
<b>Capital (NZ\$bn)</b>					
Risk-weighted assets - credit risk (spot)	42.4	41.7	41.5	1.7	2.2
Total risk-weighted assets (spot)	47.0	46.4	45.8	1.3	2.6
<b>Performance Measures</b>					
Cash earnings on average assets	1.24%	1.23%	1.26%	1 bps	(2 bps)
Cash earnings on average risk-weighted assets	1.79%	1.76%	1.77%	3 bps	2 bps
Net interest margin	2.41%	2.34%	2.34%	7 bps	7 bps
Cost to income ratio	39.4%	40.2%	40.2%	80 bps	80 bps
'Jaws'	2.3%	-	-	230 bps	230 bps
Cash earnings per average FTE (NZ\$'000s)	178	171	171	4.1	4.1
FTEs (spot)	4,737	4,718	4,719	(0.4)	(0.4)

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

Market Share <sup>(1)</sup>	As at		
	Mar 15	Sep 14	Mar 14
Housing lending	15.8%	15.9%	15.8%
Cards	23.4%	23.9%	25.5%
Agribusiness	22.2%	22.3%	22.2%
Business lending	26.5%	26.6%	26.7%
Retail deposits <sup>(2)</sup>	18.1%	18.8%	19.0%

Distribution	As at		
	Mar 15	Sep 14	Mar 14
Number of retail branches	175	177	178
Number of ATMs	475	470	472
Number of internet banking customers (no. '000s)	670	647	631

<sup>(1)</sup> Source RBNZ: March 2015 (historical market share rebased with latest revised RBNZ published data).

<sup>(2)</sup> Retail deposits include business and personal deposits and exclude wholesale deposits.

## NZ Banking

Financial Analysis (in local currency)

### March 2015 v March 2014

**Cash earnings** increased by NZ\$18 million or 4.5% 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** increased by two basis points to 1.79% on the March 2014 half year.

**Net interest income** increased by NZ\$58 million or 7.8% driven by growth in business and housing lending volumes, as well as an increase in net interest margin.

Average volumes of **gross loans and acceptances** grew by NZ\$2.5 billion or 4.0%. The growth was across both business and housing lending, with BNZ's lending market share remaining broadly stable over the period<sup>(1)</sup>. Average housing volumes grew by NZ\$1.4 billion or 4.7% and business lending by NZ\$1.1 billion or 3.5%.

**Average customer deposits** grew by NZ\$3.1 billion or 7.4% over the March 2014 half year. Customer deposit growth outpaced lending, driven by continued growth in personal deposits.

**Net interest margin** increased by seven basis points to 2.41%, largely driven by lower funding costs and higher earnings on capital. This was partially offset by a decline in asset margins from accelerated customer switching to lower margin fixed rate lending and increased competitive pressures.

**Other operating income** decreased by NZ\$18 million or 7.3% as a result of a change in the mix between margin and upfront fees, mainly for institutional customers, as well as lower interchange fee income.

**Operating expenses** increased by NZ\$7 million or 1.8% compared to the prior half year due to an increase in personnel costs.

The **charge to provide for bad and doubtful debts** increased by NZ\$5 million or 12.2% due to increased collective provision charges in the March 2015 half year.

### March 2015 v September 2014

**Cash earnings** increased by NZ\$11 million or 2.7% against the September 2014 half year driven by improved revenue.

**Cash earnings on average risk-weighted assets** increased by three basis points to 1.79% on the September 2014 half year.

**Net interest income** increased by NZ\$39 million or 5.1% driven by growth in lending volumes in both the business and housing sectors, as well as increased net interest margin.

Average volumes of **gross loans and acceptances** increased by NZ\$1.5 billion or 2.4%. Both the housing and business lending portfolio experienced steady growth supported by continued positive economic conditions. Housing average volumes grew by NZ\$0.8 billion or 2.6% and business average volumes grew by NZ\$0.7 billion or 2.2% with lending market share largely stable<sup>(1)</sup>.

**Average customer deposits** grew by NZ\$1.4 billion or 3.2% over the September half year. Customer deposit growth slowed in the half, reflecting an increased focus on higher quality personal deposits as well as a focus on managing deposit growth in line with asset growth. This resulted in an overall reduction in market share<sup>(1)</sup> and a stabilisation of share of personal deposits.

**Net interest margin** increased by seven basis points to 2.41% driven by higher earnings on capital. This was partly offset by lower asset margins due to competitive pressures and the impact of mortgage customers' preference for lower margin fixed rate lending.

**Other operating income** decreased by NZ\$14 million or 5.7% as a result of a change in the mix between margin and upfront fees, mainly for institutional customers, as well as lower interchange fee income.

**Operating expenses** increased by NZ\$1 million or 0.2%. Increased costs for technology have been largely offset by lower performance based incentives.

The **charge to provide for bad and doubtful debts** remained flat against the backdrop of a continuing positive credit risk environment.

<sup>(1)</sup> Source RBNZ: March 2015

## Other Items

## Asset Quality

	As at		
	Mar 15 <sup>(1)</sup>	Sep 14	Mar 14
Specific provision for doubtful debts (NZ\$m)	151	116	119
Collective provision for doubtful debts (NZ\$m)	279	128	158
Specific provision on loans at fair value (NZ\$m)	-	4	14
Collective provision on loans at fair value (NZ\$m)	37	150	121
90+DPD assets (NZ\$m)	203	208	252
Gross impaired assets (NZ\$m)	308	280	398
90+DPD to gross loans and acceptances	0.31%	0.32%	0.40%
Gross impaired assets to gross loans and acceptances	0.46%	0.44%	0.64%
90+DPD plus gross impaired assets to gross loans and acceptances	0.77%	0.76%	1.04%
Specific provision to gross impaired assets	49.0%	42.9%	33.4%
Net write-offs to gross loans and acceptances (annualised) <sup>(2)</sup>	0.08%	0.23%	0.23%
Total provision as a percentage of net write-offs (annualised) <sup>(2)</sup>	896%	265%	278%
Total provision to gross loans and acceptances	0.71%	0.62%	0.66%
Bad and doubtful debt charge to gross loans and acceptances (annualised) <sup>(2)</sup>	0.14%	0.14%	0.13%

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(2)</sup> March 2015 and 2014 metrics refer to the half year ratio annualised; the September 2014 metrics refer to the full year ratio.

Asset quality has remained relatively stable during the March 2015 half year, with impaired assets as a percentage of gross loans and acceptances increasing by two basis points and 90+DPD as a percentage of gross loans and acceptances decreasing by one basis point. The increase in impaired assets was mainly due to the downgrade of one large corporate customer. 90+DPD assets decreased mostly due to reduced delinquency in the corporate portfolio.

Rolling 12 month write-offs in the mortgage portfolio increased from three basis points to four basis points. 90+DPD increased from 11 basis points to 17 basis points mainly due to seasonal factors.

Net write-offs for the March 2015 half year improved compared to the September 2014 half year, with improvements predominantly across the Non Retail portfolio.

Over the March 2015 half year, the cover of total provisions to gross loans and acceptances increased by nine basis points to 0.71%.

Total collective provisions increased by NZ\$38 million against September 2014 half year to NZ\$316 million. This was largely driven by the adoption of AASB 9 in the March 2015 half year, while the underlying portfolio performance remained stable.

## 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 31 March 2015. BNZ's Common Equity Tier 1, Tier 1 and Total capital ratios of 10.79%, 11.85% and 12.90% respectively as at 31 March 2015 were well above the RBNZ minimum capital requirements of 7.00%, 8.50% and 10.50% respectively.

On 24 March 2015, NAB provided further capital of NZ\$500 million to BNZ by subscribing to ordinary shares in BNZ.

BNZ continues to be active in the term wholesale funding markets, completing an offshore issue of US\$600 million, with a three year maturity in reliance on Rule 144A and a domestic NZ\$250 million 4.3 year issue in recent months, supporting BNZ's strategy of maintaining a diversified funding base.

Collectively, BNZ's funding and capital position is supportive of BNZ's long-term credit rating of AA-/Aa3/AA- (S&P/Moody's/Fitch).

## NZ Banking

Results presented in Australian dollars. See page 54 for results in local currency.

	Half Year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Net interest income	751	701	681	7.1	10.3
Other operating income	215	224	225	(4.0)	(4.4)
<b>Net operating income</b>	<b>966</b>	925	906	4.4	6.6
Operating expenses	(380)	(373)	(364)	(1.9)	(4.4)
<b>Underlying profit</b>	<b>586</b>	552	542	6.2	8.1
Charge to provide for bad and doubtful debts	(44)	(42)	(38)	(4.8)	(15.8)
<b>Cash earnings before tax</b>	<b>542</b>	510	504	6.3	7.5
Income tax expense	(151)	(137)	(139)	(10.2)	(8.6)
<b>Cash earnings</b>	<b>391</b>	373	365	4.8	7.1

## Impact of foreign exchange rate movements

Favourable/ (unfavourable) March 15	Half year since Sep 14		Year since Mar 14		Mar 15 v Mar 14	
	\$m	Mar 15 v Sep 14 Ex FX %	\$m	Ex FX %	\$m	Ex FX %
Net interest income	14	5.1	18	7.6		
Other operating income	4	(5.8)	5	(6.7)		
Operating expenses	(7)	-	(9)	(1.9)		
Charge to provide for bad and doubtful debts	(1)	(2.4)	(2)	(10.5)		
Income tax expense	(2)	(8.8)	(3)	(6.5)		
Cash earnings	8	2.7	9	4.7		

## 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.

	Half year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Net investments income	554	537	545	3.2	1.7
Net insurance income <sup>(1)</sup>	203	161	163	26.1	24.5
IoRE	24	19	15	26.3	60.0
<b>Net income</b>	<b>781</b>	<b>717</b>	<b>723</b>	<b>8.9</b>	<b>8.0</b>
Operating expenses	(470)	(459)	(491)	(2.4)	4.3
<b>Cash earnings before tax</b>	<b>311</b>	<b>258</b>	<b>232</b>	<b>20.5</b>	<b>34.1</b>
Income tax expense	(88)	(67)	(58)	(31.3)	(51.7)
<b>Cash earnings</b>	<b>223</b>	<b>191</b>	<b>174</b>	<b>16.8</b>	<b>28.2</b>

**Represented by:**

	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m	Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
Investments	173	158	147	9.5	17.7
Insurance	50	33	27	51.5	85.2
<b>Cash earnings</b>	<b>223</b>	<b>191</b>	<b>174</b>	<b>16.8</b>	<b>28.2</b>

**Planned and Experience Analysis - Insurance**

	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m	Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
Planned profit margins	85	63	61	34.9	39.3
Experience loss	(35)	(30)	(34)	(16.7)	(2.9)
<b>Insurance cash earnings</b>	<b>50</b>	<b>33</b>	<b>27</b>	<b>51.5</b>	<b>85.2</b>

<sup>(1)</sup> Includes actuarial assumption changes (post-tax): \$14 million and \$11 million for March 2014 and September 2014 respectively. No actuarial assumption changes were made in the March 2015 half year.

**Performance Measures**

	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m	Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
Funds under management (spot) (\$m) <sup>(2)</sup>	177,076	158,052	153,771	12.0	15.2
Funds under management (average) (\$m) <sup>(2)</sup>	162,884	156,901	149,614	3.8	8.9
Net funds flow (\$m)	(1,042)	(439)	2,555	large	large
Cost to income ratio	60.2%	64.0%	67.9%	380 bps	770 bps
Investment operating expenses to average FUM (bps)	42	44	49	2 bps	7 bps
Investment income to average FUM (bps)	68	68	73	-	(5 bps)
Annual inforce premiums (spot) (\$m)	1,788	1,691	1,673	5.8	6.9
Annual inforce premiums (average) (\$m)	1,740	1,682	1,642	3.4	5.9
Insurance cost to average inforce premiums	15%	14%	15%	(100 bps)	-
Cash earnings per average FTE (\$'000s)	91	78	72	16.7	26.4
FTEs (spot)	4,932	4,840	4,836	(1.9)	(2.0)

<sup>(2)</sup> FUM excludes Trustee and Cash Management. FUM is reported on the basis of nablInvest's proportional ownership interest rather than the total FUM of these businesses. FUM includes the fund manager Orchard Street Investment Management, purchased during the March 2015 half year.

	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m	Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
<b>Annual Inforce Premiums (spot)</b>					
Retail insurance	1,275	1,260	1,248	1.2	2.2
Group insurance	513	431	425	19.1	20.7
<b>Total</b>	<b>1,788</b>	<b>1,691</b>	<b>1,673</b>	<b>5.8</b>	<b>6.9</b>

**NAB Wealth - Interest on Retained Earnings by Asset Class**

IoRE by Asset Class	Half year to								
	Mar 15			Sep 14			Mar 14		
	Actual Earnings	Weighted Asset Balance	Earnings Rate <sup>(3)</sup>	Actual Earnings	Weighted Asset Balance	Earnings Rate <sup>(3)</sup>	Actual Earnings	Weighted Asset Balance	Earnings Rate <sup>(3)</sup>
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
Equity	19	196	19.4	12	179	13.4	12	169	14.2
Fixed interest	4	86	8.4	3	59	10.2	2	57	7.0
Cash	1	99	2.8	4	147	5.4	1	171	1.2
<b>IoRE before Tax</b>	<b>24</b>			<b>19</b>			<b>15</b>		

<sup>(3)</sup> The earnings rate is an annualised rate.

**NAB Wealth**

## Financial Analysis

**March 2015 v March 2014**

**Cash earnings** increased by \$49 million or 28.2% compared to the March 2014 half year, reflecting positive investment markets, improved insurance results and lower operating expenses.

**Net investments income** increased by \$9 million or 1.7% compared to the March 2014 half year due to revenue growth from higher FUM as a result of strong investment markets, offset by lower margins. Margins have declined since the March 2014 half year driven by MySuper plan transitions and a change in business mix to lower margin wholesale and institutional products, consistent with broader industry experience.

**Net insurance income** increased by \$40 million or 24.5% compared to the March 2014 half year. The increase was driven by management initiatives resulting in improved claims performance and stable lapses, combined with non-recurring insurance reserves.

**Operating expenses** fell by \$21 million or 4.3% compared to the March 2014 half year primarily due to lower project spend, partially offset by higher technology costs.

**Average FUM** increased by \$13.3 billion or 8.9% mainly due to positive market performance, as well as the purchase of fund manager Orchard Street Investment Management.

**Net funds flow** fell by \$3.6 billion compared to the March 2014 half year due to fewer large institutional and wholesale client mandates and the contractual end of an institutional fund mandate in the March 2015 half year.

**Insurance planned profit margins and experience profit/(loss)**

Planned profit margins increased by \$24 million or 39.3% compared to the March 2014 half year primarily due to planned pricing increases.

Planned margins were not achieved mainly due to lower than expected premiums received and lapse experience not yet meeting long-term actuarial assumptions.

**Inforce premiums** as at 31 March 2015 of \$1.8 billion grew by \$116 million or 6.9% compared to 31 March 2014 due to improved pricing of policies.

**March 2015 v September 2014**

**Cash earnings** increased by \$32 million or 16.8% compared to the September 2014 half year. This was largely driven by improved insurance results and growth in investment revenue from higher FUM, as a result of strong investment markets.

**Net investments income** increased by \$17 million or 3.2% compared to the September 2014 half year due to revenue growth from higher FUM as a result of strong investment markets.

**Net insurance income** increased by \$42 million or 26.1% compared to the September 2014 half year. The increase was driven by management initiatives resulting in stabilised claims and lapses, combined with non-recurring insurance reserves.

**Operating expenses** increased by \$11 million or 2.4% compared to the September 2014 half year. The increase was mainly due to higher technology costs and reallocation of operating costs to volume related expense in the September 2014 half year, partially offset by lower project spend.

**Average FUM** increased by \$6.0 billion or 3.8% primarily due to positive market performance as well as the purchase of fund manager Orchard Street Investment Management.

**Net funds flow** fell by \$0.6 billion compared to the September 2014 half year, primarily due to the contractual end of an institutional fund mandate in the March 2015 half year. Excluding this, underlying net funds flow was positive.

**Insurance planned profit margins and experience profit/(loss)**

Planned profit margins increased by \$22 million or 34.9% compared to the September 2014 half year primarily due to planned pricing increases.

Planned margins were not achieved primarily due to lower than expected premiums received and lapse experience not yet meeting long-term actuarial assumptions.

**Inforce premiums** as at 31 March 2015 of \$1.8 billion grew by \$98 million or 5.8% compared to 30 September 2014 due to improved pricing of policies.

## NAB Wealth

## Funds Under Management

Movement in Funds under Management and Administration (\$m)	As at Mar 14	Client Inflows	Client Outflows	Market Performance	Other <sup>(1)</sup>	As at Mar 15
Retail <sup>(2)</sup>	103,209	15,573	(16,231)	14,195	(1,128)	115,618
Wholesale <sup>(3)</sup>	50,562	9,537	(10,360)	6,150	5,569	61,458
Total NAB Wealth ex Trustee and Cash Management	153,771	25,110	(26,591)	20,345	4,441	177,076

Movement in Funds under Management and Administration (\$m)	As at Sep 14	Client Inflows	Client Outflows	Market Performance	Other <sup>(1)</sup>	As at Mar 15
Retail <sup>(2)</sup>	105,765	7,332	(7,733)	10,845	(591)	115,618
Wholesale <sup>(3)</sup>	52,287	3,988	(4,629)	4,165	5,647	61,458
Total NAB Wealth ex Trustee and Cash Management	158,052	11,320	(12,362)	15,010	5,056	177,076

<sup>(1)</sup> Other includes trust distributions.

<sup>(2)</sup> Retail includes corporate superannuation.

<sup>(3)</sup> Wholesale includes a boutique fund manager purchased during the March 2015 half year.

FUM by Asset Class	As at		
	Mar 15	Sep 14	Mar 14
Australian equities	33%	32%	33%
International equities	25%	25%	24%
Australian fixed interest	16%	18%	17%
International fixed interest	8%	8%	8%
Australian cash	10%	12%	12%
International direct property	4%	-	-
International listed property	2%	3%	4%
Australian listed property	3%	2%	2%

## Funds under Management

	Dec 14		Sep 14		Dec 13	
	Rank	Market Share %	Rank	Market Share %	Rank	Market Share %
Retail (excl. Cash)	2	15.0	2	15.0	2	15.3
Total Retail Superannuation	2	19.4	2	19.4	2	19.5
Total Wholesale	4	5.5	4	5.6	5	5.1

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

## Premiums in Force

	Dec 14		Sep 14		Dec 13	
	Rank	Market Share %	Rank	Market Share %	Rank	Market Share %
Retail insurance	2	15.2	2	15.3	2	15.9
Group insurance	5	9.5	5	8.4	5	9.8

## Share of New Business

	Dec 14		Sep 14		Dec 13	
	Rank	Market Share %	Rank	Market Share %	Rank	Market Share %
Retail insurance	2	15.1	2	14.8	2	14.6
Group insurance	3	13.3	5	9.0	3	14.9

Source: DEXX&R Life Analysis - December 2014. (Prior periods include restatements of premiums in force and share of new business made by DEXX&R.)

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## UK Banking

Debbie Crosbie (Acting CEO, UK)

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 65 for results in \$AUDm.

	Half Year to			Mar 15 <sup>(1)</sup> v Sep 14 %	Mar 15 <sup>(1)</sup> v Mar 14 %
	Mar 15 <sup>(1)</sup> £m	Sep 14 £m	Mar 14 £m		
Net interest income	386	379	380	1.8	1.6
Other operating income	93	105	105	(11.4)	(11.4)
<b>Net operating income</b>	<b>479</b>	<b>484</b>	<b>485</b>	<b>(1.0)</b>	<b>(1.2)</b>
Operating expenses	(337)	(345)	(341)	2.3	1.2
<b>Underlying profit</b>	<b>142</b>	<b>139</b>	<b>144</b>	<b>2.2</b>	<b>(1.4)</b>
Charge to provide for bad and doubtful debts	(24)	(25)	(55)	4.0	56.4
<b>Cash earnings before tax</b>	<b>118</b>	<b>114</b>	<b>89</b>	<b>3.5</b>	<b>32.6</b>
Income tax expense	(19)	(29)	(16)	34.5	(18.8)
<b>Cash earnings</b>	<b>99</b>	<b>85</b>	<b>73</b>	<b>16.5</b>	<b>35.6</b>
<b>Average Volumes (£bn)</b>					
Gross loans and acceptances	28.0	27.1	26.7	3.3	4.9
Interest earning assets	35.5	34.6	33.9	2.6	4.7
Total assets	38.5	37.8	36.3	1.9	6.1
Customer deposits	24.2	23.7	23.3	2.1	3.9
<b>Capital (£bn)</b>					
Risk-weighted assets - credit risk (spot)	18.4	18.7	19.2	(1.6)	(4.2)
Total risk-weighted assets (spot)	24.1	23.5	24.1	2.6	-
<b>Performance Measures</b>					
Cash earnings on average assets	0.52%	0.45%	0.40%	7 bps	12 bps
Cash earnings on average risk-weighted assets	0.84%	0.71%	0.60%	13 bps	24 bps
Net interest margin	2.18%	2.18%	2.25%	-	(7 bps)
Cost to income ratio	70.4%	71.3%	70.3%	90 bps	(10 bps)
'Jaws'	1.3%	(1.4%)	4.6%	270 bps	(330 bps)
Cash earnings per average FTE (£'000s)	27	23	21	17.4	28.6
FTEs (spot)	7,249	7,278	7,103	0.4	(2.1)

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

Distribution	As at		
	Mar 15	Sep 14	Mar 14
Number of retail branches	294	296	322
Number of ATMs	888	859	859
Number of internet banking customers (no. '000s) <sup>(1)</sup>	659	623	599

<sup>(1)</sup> Prior period numbers have been restated due to changes in methodology

## UK Banking

Financial Analysis (in local currency)

### March 2015 v March 2014

**Cash earnings** increased by £26 million to £99 million when compared to the March 2014 half year, primarily due to lower bad and doubtful debt charges.

**Cash earnings on average risk weighted assets** increased by 24 basis points to 0.84%. This reflects an improvement in cash earnings.

**Net interest income** increased by £6 million or 1.6%. This was driven by higher income from housing lending and lower term deposit costs. These results were partially offset by lower business lending income driven by a reduction in business lending balances due to subdued demand for business credit and the managed run-off of lower yielding assets.

The **net interest margin** decreased by seven basis points. This was driven by an increase in low yielding liquid assets and lower lending margins due to competitive pressures. This effect was partially offset by an improved retail deposit mix and lower funding costs.

**Average gross loans and acceptances** increased by £1.3 billion or 4.9%. UK housing lending growth was strong at £2.4 billion, or 14.5%, increasing market share by 21 basis points to 1.55%<sup>(1)</sup>. The performance was driven by front book acquisition of 2.5% of UK housing market gross new lending, in line with the March 2014 half year, and lower attrition. This was partially offset by a reduction in business lending balances of £1.1 billion or 12.4%, due to the subdued demand for credit, the managed run-off of lower yielding assets and competitive pressures.

**Average customer deposits** increased by £0.9 billion or 3.9%. This comprised an improved deposit mix with growth in current and savings accounts, partially offset by a reduction in higher cost term deposits.

**Other operating income** decreased by £12 million or 11.4% due to lower fees and commissions following the strategy to reduce account fees to improve the customer proposition.

**Operating expenses** decreased by £4 million or 1.2%. The decrease was due to a one-off pension scheme gain, combined with charges of £13 million for conduct issues<sup>(2)</sup> incurred in the March 2014 half year that did not recur in the March 2015 half year. These favourable impacts were partially offset by restructuring charges taken in the half (£11 million), combined with an increase in marketing costs to support customer acquisition.

The **charge to provide for bad and doubtful debts** decreased by £31 million or 56.4%. This was primarily driven by a reduction in business lending charges as a result of improving economic conditions, and a reduction in the size of the business portfolio.

### March 2015 v September 2014

**Cash earnings** increased by £14 million to £99 million when compared to the September 2014 half year, primarily due to lower expenses and a lower effective tax rate.

**Cash earnings on average risk weighted assets** increased by 13 basis points to 0.84%. This reflects an improvement in cash earnings.

**Net interest income** increased by £7 million or 1.8%. The key impact was the timing of the Financial Services Compensation Scheme (FSCS) levy of £13 million, which is incurred in the September half of each financial year. Excluding this impact, underlying net interest income decreased by £6 million or 1.5%, with lower business lending income and lower hedging income, partially offset by higher housing lending income.

The **net interest margin** remained flat, impacted by the timing of the FSCS levy. Excluding this impact, the net interest margin decreased by 8 basis points driven by lower lending margins and lower hedging income, partially offset by an improved retail deposit mix.

**Average gross loans and acceptances** increased by £0.9 billion or 3.3%. UK housing lending growth was strong at £1.3 billion, or 7.3%, increasing market share by 12 basis points to 1.55%<sup>(1)</sup>. The performance was driven by front book acquisition of 2.5% of UK housing market gross new lending, in line with the September 2014 half year, and lower attrition. This was partially offset by a reduction in business lending balances of £0.4 billion or 4.9%, due to the managed run-off of lower yielding assets and competitive pressures.

**Average customer deposits** increased by £0.5 billion or 2.1%. This comprised an improved deposit mix with growth in current and savings accounts, partially offset by a reduction in higher cost term deposits.

**Other operating income** decreased by £12 million or 11.4% due to lower fees and commissions following the strategy to reduce account fees to improve the customer proposition, and the non-recurring gain of £7 million arising from a property sale and leaseback transaction in the September half.

**Operating expenses**<sup>(2)</sup> decreased by £8 million or 2.3%. The decrease was due to a one-off pension scheme gain, partially offset by restructuring charges taken in the half (£11 million), combined with an increase in marketing costs to support customer acquisition and higher technology costs.

The **charge to provide for bad and doubtful debts** decreased by £1 million or 4.0%. This was driven by lower housing lending losses in the period, partially offset by higher business lending charges.

<sup>(1)</sup> Source: Bank of England - February 2015

<sup>(2)</sup> Charges relating to the UK fine during the half year March 2015 and conduct charges relating to payment protection insurance and interest rate hedging products incurred in prior periods have been included within Corporate Functions and Other division results.

## Other Items

## Asset Quality

	As at		
	Mar 15 <sup>(1)</sup>	Sep 14	Mar 14
Specific provision for doubtful debts (£m)	85	111	134
Collective provision for doubtful debts (£m)	190	134	145
Specific provision on loans at fair value (£m)	17	30	29
Collective provision on loans at fair value (£m)	41	44	49
90+DPD assets (£m)	173	182	213
Gross impaired assets (£m)	280	375	410
90+DPD to gross loans and acceptances	0.61%	0.66%	0.80%
Gross impaired assets to gross loans and acceptances	0.99%	1.35%	1.53%
90+DPD plus gross impaired assets to gross loans and acceptances	1.60%	2.01%	2.33%
Specific provision to gross impaired assets	36.4%	37.6%	39.8%
Net write-offs to gross loans and acceptances (annualised) <sup>(2)</sup>	0.45%	0.43%	0.45%
Total provision as a percentage of net write-offs (annualised) <sup>(2)</sup>	259%	268%	292%
Total provision to gross loans and acceptances	1.18%	1.15%	1.33%
Bad and doubtful debt charge to gross loans and acceptances (annualised) <sup>(2)</sup>	0.17%	0.29%	0.41%

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(2)</sup> March 2015 and 2014 metrics refer to the half year ratio annualised, the September 2014 metrics refer to the full year ratio.

Asset quality has continued to improve over the March 2015 half year.

Retail asset quality remains strong and lower default rates continue to be observed across unsecured lending. Impaired loan levels in housing lending have remained subdued against a growing portfolio due to a period of low interest rates, low unemployment rates and a recovery in residential property prices. The housing loan 90+DPD shows continued improvements and the unsecured lending portfolios are showing a steady reduction.

The non-retail asset quality metrics have responded positively to management actions and the improvement in the environment. However, the portfolio remains sensitive to economic conditions.

Total collective provisions increased by £53 million against the September 2014 half year to £231 million. This was largely driven by the adoption of AASB 9 in the March 2015 half year. This more than offsets an underlying reduction in provisions resulting from the stabilisation in non-retail asset quality and the continued reduction of the business lending portfolio.

Gross impaired assets decreased by £95 million to £280 million in the current period mainly driven by an improvement in non-retail assets.

Net write-offs to gross loans and acceptances increased by two basis points to 0.45% over the period to March 2015, due to higher levels of write-offs in the non-retail portfolio.

The ratio of total provisions to gross loans and acceptances increased by three basis points, to 1.18%, in the six months to March 2015. This increase includes the impact of the adoption of AASB 9.

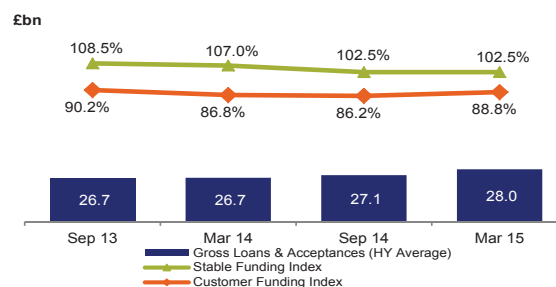
## Capital and Funding Position

The Clydesdale Bank plc Common Equity Tier 1 (CET1) ratio increased from 12.06% in September 2014 to 12.75% in March 2015.

In December 2014, a capital re-structure was completed to strengthen the Clydesdale Bank plc's capital base and ensure that the Capital Requirements Directive IV (CRDIV) regulatory capital requirements are met. As part of this restructure Clydesdale Bank plc issued £350 million of Basel III compliant additional Tier 1 securities to National Australia Group Europe Limited (NAGE). At the same time, NAGE issued an additional £350 million of Ordinary Shares and £150 million of Additional Tier 1 securities to the NAB.

Clydesdale Bank plc continues to raise term funding through Covered Bond and Securitisation programs with approximately £708 million raised in December 2014. Clydesdale Bank plc remains diversified in terms of the type of instrument and product, currency, counterparty, term structure and market, available through such programs.

## Stable Funding and Customer Funding Indices



Clydesdale Bank plc's Customer Funding Index (CFI) has improved to 88.8% at March 2015, with lending growth being largely funded by growth in customer deposit balances. The Stable Funding Index (SFI) remained flat at 102.5% following the repayment of £601m of term subordinated debt that was replaced with the instruments discussed above as part of capital restructuring in December 2014.

**UK Banking**

Results presented in Australian dollars. See page 62 for results in local currency.

	Half Year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Net interest income	728	685	682	6.3	6.7
Other operating income	174	188	188	(7.4)	(7.4)
<b>Net operating income</b>	<b>902</b>	<b>873</b>	<b>870</b>	<b>3.3</b>	<b>3.7</b>
Operating expenses	(637)	(622)	(611)	(2.4)	(4.3)
<b>Underlying profit</b>	<b>265</b>	<b>251</b>	<b>259</b>	<b>5.6</b>	<b>2.3</b>
Charge to provide for bad and doubtful debts	(44)	(45)	(100)	2.2	56.0
<b>Cash earnings before tax</b>	<b>221</b>	<b>206</b>	<b>159</b>	<b>7.3</b>	<b>39.0</b>
Income tax expense	(37)	(53)	(28)	30.2	(32.1)
<b>Cash earnings</b>	<b>184</b>	<b>153</b>	<b>131</b>	<b>20.3</b>	<b>40.5</b>

**Impact of foreign exchange rate movements**

Favourable/ (unfavourable) March 15	Half year since Sep 14		Half year since Mar 14	
	\$m	Mar 15 v Sep 14 Ex FX %	\$m	Mar 15 v Mar 14 Ex FX %
Net interest income	32	1.6	36	1.5
Other operating income	5	(10.1)	6	(10.6)
Operating expenses	(28)	2.1	(31)	0.8
Charge to provide for bad and doubtful debts	(2)	6.7	(2)	58.0
Income tax expense	(2)	34.0	(2)	(25.0)
Cash earnings	5	17.0	7	35.1

Corporate Functions and Other <sup>(1)</sup>

The Group's 'Corporate Functions' business includes functions that support all businesses including Group Funding, Other Corporate Functions activities, the results of Specialised Group Assets (SGA), Great Western Bank (GWB) and NAB UK Commercial Real Estate (NAB UK CRE). 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).

	Half Year to			Mar 15 v Sep 14 %	Mar 15 v Mar 14 %
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m		
Net operating income	435	496	545	(12.3)	(20.2)
Operating expenses	(266)	(1,667)	(385)	84.0	30.9
<b>Underlying profit/(loss)</b>	<b>169</b>	<b>(1,171)</b>	<b>160</b>	large	5.6
(Charge to provide for)/write back of bad and doubtful debts	(1)	104	(15)	large	93.3
<b>Cash earnings before tax, non controlling interest and distributions</b>	<b>168</b>	<b>(1,067)</b>	<b>145</b>	large	15.9
Income tax benefit/(expense)	(95)	1	(49)	large	(93.9)
<b>Cash earnings before non-controlling interest and distributions</b>	<b>73</b>	<b>(1,066)</b>	<b>96</b>	large	(24.0)
Cash earnings - non-controlling interest	(16)	-	-	-	-
<b>Cash earnings/(deficit)</b>	<b>57</b>	<b>(1,066)</b>	<b>96</b>	large	(40.6)

<sup>(1)</sup> NAB UK CRE has been incorporated into Corporate Functions and Other, including prior year comparatives.

## Financial Analysis

**March 2015 v March 2014**

**Cash earnings** decreased by \$39 million against March 2014. Excluding foreign exchange and the impact of specified items on the March 2014 half (detailed on page 21), cash earnings decreased by \$217 million. This decrease was driven by lower income and an increase in operating expenses, partially offset by lower bad and doubtful debts.

**Net operating income** decreased by \$110 million. Excluding the impact of foreign exchange, net operating income decreased by \$150 million driven by lower income from Group funding and hedging activities, lower operating income from NAB UK CRE and SGA as a result of the continued run off of the portfolios, partially offset by gains relating to the sale of loans within the NAB UK CRE and SGA portfolios.

**Operating expenses** decreased by \$119 million. Excluding foreign exchange and the impact of specified items (detailed on page 21), operating expenses increased by \$72 million. This was due to the UK fine, combined with transactional costs in relation to the UK Banking separation and NAB UK CRE restructuring costs, partially offset by lower operating costs from NAB UK CRE and SGA as a result of the continued run off of the portfolios.

The **charge to provide for bad and doubtful debts** decreased by \$14 million due lower specific provision charges mainly due to the sale of assets in the NAB UK CRE portfolio. This was partially offset by the release of the NAB UK CRE overlay in the March 2014 half year not repeated in the March 2015 half year.

**Income tax expense** increased by \$46 million. Excluding foreign exchange and the impact of specific items which impacted the March 2014 half (detailed on page 21), income tax expense decreased by \$6 million.

**March 2015 v September 2014**

**Cash earnings** increased by \$1,123 million against September 2014. Excluding foreign exchange and the impact of specified items on the September 2014 half (detailed on page 21), cash earnings decreased by \$239 million to \$39 million. This decrease was driven by lower income and higher bad and doubtful debts.

**Net operating income** decreased by \$61 million against September 2014. Excluding the impact of foreign exchange, net operating income decreased by \$104 million, driven by lower income from Group funding and hedging activities, lower operating income from NAB UK CRE and SGA as a result of the continued run off of the portfolios, partially offset by gains relating to the sale of loans within the NAB UK CRE and SGA portfolios.

**Operating expenses** decreased by \$1,401 million. Excluding foreign exchange and the impact of specified items which impacted the September 2014 half (detailed on page 21), operating expenses increased by \$46 million. This was due to the UK fine, combined with transactional costs in relation to the UK Banking separation and NAB UK CRE restructuring costs, partially offset by lower operating costs from NAB UK CRE and SGA as a result of the continued run off of the portfolios and costs incurred from strategic initiatives in the September 2014 half not repeated.

The **charge to provide for bad and doubtful debts** increased by \$105 million mainly due to release of the Group economic cycle adjustment and NAB UK CRE overlays in September 2014 half year not repeated in the first half of 2015.

**Income tax expense** increased by \$96 million. Excluding foreign exchange and the impact of specified items which impacted the September 2014 half (detailed on page 21), income tax expense decreased by \$30 million.

## Section 5

**Financial Report**

Report of the Directors	68
Consolidated Financial Statements	72
Income Statement	72
Statement of Comprehensive Income	73
Balance Sheet	74
Condensed Cash Flow Statement	75
Statement of Changes in Equity	76
Notes to the Consolidated Financial Statements	78
1. Principal Accounting Policies	78
2. Segment Information	85
3. Other Income	87
4. Operating Expenses	88
5. Income Tax Expense	89
6. Dividends and Distributions	90
7. Loans and Advances including Acceptances	91
8. Provision for Doubtful Debts	93
9. Asset Quality	95
10. Deposits and Other Borrowings	97
11. Contributed Equity and Reserves	99
12. Notes to the Condensed Cash Flow Statement	102
13. Fair Value of Financial Instruments	103
14. Contingent Liabilities	107
15. Events Subsequent to Reporting Date	109
Directors' Declaration	110
Independent Review Report	111

## Report of the Directors

The directors of NAB present their report, together with the financial statements of the Group for the half year ended 31 March 2015.

The directors of NAB have a significant responsibility with respect to the integrity of external reporting. This involves reviewing and monitoring, with the assistance of the Audit Committee and management, the processes, controls and procedures that are in place to maintain the integrity of the Group's financial statements. Further details on the role of the Board and its Committees can be found in the Corporate Governance section of the Group's 2014 Annual Financial Report or on the Group's website at [www.nab.com.au](http://www.nab.com.au).

### Directors

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

Michael A Chaney

*Chairman since September 2005 and Director since December 2004*

Andrew G Thorburn

*Managing Director and Chief Executive Officer since August 2014*

David H Armstrong

*Director since August 2014*

Daniel T Gilbert

*Director since September 2004*

Peeyush K Gupta

*Director since November 2014*

Dr Kenneth R Henry

*Director since November 2011*

Geraldine C McBride

*Director since March 2014*

Paul J Rizzo

*Director since September 2004*

Jillian S Segal

*Director since September 2004*

John G Thorn

*Director from October 2003 to December 2014*

Geoffrey A Tomlinson

*Director from March 2000 to December 2014*

John A Waller

*Director since February 2009*

Anthony KT Yuen

*Director since March 2010*

### Rounding of Amounts

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

### Review of Group Operations

The Group has refreshed its strategy in light of the changing business environment in which it operates. The strategy seeks to position the Group to be Australia and New Zealand's most respected bank. The Group's objective is to deliver superior returns to its shareholders.

To meet this objective, the Group will focus on delivering initiatives aligned to the following strategic themes:

- Focus on priority customer segments
- Deliver a great customer experience
- Execute flawlessly and relentlessly
- Great people living the Group's values.

The strategy is supported by the Group's foundations of maintaining a strong balance sheet, managing risk and investing in technology.

The March 2015 half year results reflect improvement across all businesses, continuing to build on solid momentum from the comparative period, and progress on the Group's strategic priorities.

Australian Banking delivered a sound result with stronger trading performance, increased sales of risk management products to the Group's customers, and higher volumes of housing and business lending. This was partly offset by weaker margins as a consequence of intensifying competitive pressures.

The Group's New Zealand franchise, BNZ, continues to strengthen its position with higher revenue benefitting from steady growth in lending volumes and improved margins as funding costs continue to decline.

NAB Wealth showed improved results from both the investments and insurance businesses, and lower operating expenses. Net income experienced strong growth due to improved insurance claims performance, stable lapses and growth in funds under management (FUM) as a result of strong investment markets.

UK Banking local currency cash earnings increased, driven by a material reduction in B&DD charges as the business benefitted from improved economic conditions.

Since the end of the half year, the Group continued to make good progress in exiting low returning and legacy assets including:

- Completing a secondary public offering of Great Western Bancorp, Inc. in May 2015, which reduces the Group's holding in Great Western Bancorp, Inc. to 28.5%
- Announcing that the Group intends to pursue a public market option of a demerger of Clydesdale Bank's holding company National Australia Group Europe and its subsidiaries (Listco) and an initial public offering (of approximately 20-30%) to institutional investors
- Announcing that the Group has entered into a reinsurance arrangement for its life insurance business.

The Group also announced a \$5.5 billion capital raising through a rights issue. The capital raising will strengthen the Group's balance sheet and position the Group to deal with both the capital impact of demerging from Listco and with potential near term regulatory changes. Further details on these announcements can be found in *Note 15 'Subsequent Events'* on page 109.

## Review of Group Results

Net profit attributable to owners of the Company for the half year ended 31 March 2015 increased by \$584 million or 20.4% to \$3,440 million compared to the March 2014 half year. This result largely reflects higher revenue and lower charges for bad and doubtful debts. These were partially offset by higher expenses, including a fine issued to Clydesdale Bank plc by the UK regulator and increased income tax expense.

Net interest income increased by \$278 million or 4.1% driven by higher housing and business lending volumes, lower funding and deposit costs and gains on interest rate risk management activities. This was partially offset by lower margins in both business and housing lending.

Net life insurance income increased by \$261 million or 122.0% due to higher investment revenue from strong investment market performance, combined with improved claims performance and stable lapses.

Total other income increased by \$808 million or 37.3% largely attributable to net gains on financial instruments at fair value, combined with gains on sale from the sell down of the higher risk assets in the NAB UK CRE and SGA portfolios.

Operating expenses increased slightly when compared to March 2014, by \$37 million or 0.8%. The increase reflects investment in the Group's priority customer segments, higher technology costs and Enterprise Bargaining Agreement wage increases, combined with the UK fine and transaction costs for the proposed UK separation. These costs were partially offset by conduct charges taken in the March 2014 half which did not recur in the March 2015 half, combined with lower project spend and productivity savings.

Total assets increased by \$113 billion or 13.3%, driven by continued momentum in business and housing lending particularly in the Australian Banking, combined with growth in trading derivatives and investments relating to the life insurance business as a result of improved global equity markets during the period. Total liabilities increased by \$110 billion or 13.8% mainly from growth in customer deposits, trading derivative liabilities and life policy liabilities.

## Corporate Governance

The Board has received the relevant assurances required under Recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations jointly from the Group Chief Executive Officer and the Group Executive, Finance and Strategy in respect of the half year financial report for the period ended 31 March 2015.

## Auditor's independence declaration

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

## Directors' signatures

Signed in accordance with a resolution of the directors:



Michael A Chaney  
Chairman



Andrew Thorburn  
Group Chief Executive Officer

7 May 2015





Ernst & Young  
8 Exhibition Street  
Melbourne VIC 3000 Australia  
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## **Auditor's Independence Declaration to the Directors of National Australia Bank Limited**

In relation to our review of the financial report of National Australia Bank Limited for the half year ended 31 March 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Andrew Price  
Partner  
Melbourne

7 May 2015

# 2015

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## Income Statement

	Note	Half Year to		
		Mar 15 \$m	Sep 14 \$m	Mar 14 \$m
Interest income		15,726	15,509	15,269
Interest expense		(8,624)	(8,594)	(8,445)
Net interest income		7,102	6,915	6,824
Premium and related revenue		850	861	771
Investment revenue		8,350	3,628	3,759
Fee income		294	288	288
Claims expense		(441)	(500)	(461)
Change in policy liabilities		(6,714)	(2,886)	(3,032)
Policy acquisition and maintenance expense		(490)	(501)	(444)
Investment management expense		(6)	(3)	(10)
Movement in external unitholders' liability		(1,368)	(559)	(657)
Net life insurance income		475	328	214
Gains less losses on financial instruments at fair value	3	971	750	249
Other operating income	3	2,003	2,051	1,917
Total other income		2,974	2,801	2,166
Personnel expenses	4	(2,329)	(2,240)	(2,292)
Occupancy-related expenses	4	(318)	(322)	(323)
General expenses	4	(1,946)	(3,320)	(1,941)
Total operating expenses		(4,593)	(5,882)	(4,556)
Charge to provide for doubtful debts	8	(453)	(332)	(523)
Profit before income tax expense		5,505	3,830	4,125
Income tax expense	5	(2,045)	(1,391)	(1,266)
<b>Net profit for the period</b>		<b>3,460</b>	<b>2,439</b>	<b>2,859</b>
<i>Attributable to:</i>				
Owners of the Company		3,440	2,439	2,856
Non-controlling interest in controlled entities		20	-	3
<b>Net profit for the period</b>		<b>3,460</b>	<b>2,439</b>	<b>2,859</b>
		<b>cents</b>	<b>cents</b>	<b>cents</b>
Basic earnings per share		142.4	101.8	120.4
Diluted earnings per share		139.8	100.2	118.4

## Statement of Comprehensive Income

	Note	Half Year to		
		Mar 15 <sup>(1)</sup> \$m	Sep 14 \$m	Mar 14 \$m
<b>Net profit for the period</b>		3,460	2,439	2,859
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Actuarial (losses)/gains on defined benefit superannuation plans	11	(12)	104	(55)
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	11	73	(24)	(20)
Revaluation of land and buildings	11	-	3	-
Exchange differences on translation of other contributed equity		139	33	48
Tax on items transferred directly (from)/to equity	11	(14)	(24)	18
<b>Total items that will not be reclassified to profit or loss</b>		186	92	(9)
<b>Items that will be reclassified subsequently to profit or loss</b>				
Cash flow hedges:				
Gains/(losses) on cash flow hedging instruments	11	116	41	(160)
(Gains)/losses transferred to the income statement	11	(22)	(90)	6
Exchange differences on translation of foreign operations		723	4	489
Investments - available for sale:				
Revaluation gains	11	-	58	205
Gains from sale transferred to the income statement	11	-	(59)	(35)
Impairment transferred to the income statement	11	-	4	-
Debt instruments at fair value through other comprehensive income reserve:				
Revaluation gains	11	153	-	-
Gains from sale transferred to the income statement	11	(65)	-	-
Equity instruments at fair value through other comprehensive income reserve:				
Revaluation gains	11	43	-	-
Tax on items transferred directly (from)/to equity		(102)	4	(38)
<b>Total items that will be reclassified subsequently to profit or loss</b>		846	(38)	467
<b>Other comprehensive income for the period, net of income tax</b>		1,032	54	458
<b>Total comprehensive income for the period</b>		4,492	2,493	3,317
Attributable to:				
Owners of the Company		4,393	2,493	3,314
Non-controlling interest in controlled entities		99	-	3
<b>Total comprehensive income for the period</b>		4,492	2,493	3,317

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

## Balance Sheet

	Note	As at		
		31 Mar 15 <sup>(1)</sup> \$m	30 Sep 14 \$m	31 Mar 14 \$m
<b>Assets</b>				
Cash and liquid assets		32,967	41,034	38,095
Due from other banks		57,042	39,088	50,246
Trading derivatives		76,872	57,389	41,784
Trading securities		40,886	44,212	38,782
Debt instruments at fair value through other comprehensive income		47,099	-	-
Investments - available for sale		-	43,386	37,558
Investments - held to maturity		-	2,919	3,708
Investments relating to life insurance business		92,965	85,032	81,282
Other financial assets at fair value		31,426	84,488	80,268
Hedging derivatives		9,479	5,488	4,276
Loans and advances		517,680	434,725	423,711
Due from customers on acceptances		21,649	23,437	25,917
Property, plant and equipment		1,948	1,952	1,951
Goodwill and other intangible assets		8,030	7,720	7,830
Deferred tax assets		1,381	1,617	1,332
Other assets <sup>(2)</sup>		19,163	10,814	9,274
<b>Total assets</b>		<b>958,587</b>	<b>883,301</b>	<b>846,014</b>
<b>Liabilities</b>				
Due to other banks		47,946	45,204	44,881
Trading derivatives		76,913	55,858	43,895
Other financial liabilities at fair value		30,678	28,973	27,287
Hedging derivatives		5,448	3,445	3,245
Deposits and other borrowings	10	503,977	476,208	462,297
Life policy liabilities		78,596	71,701	67,630
Current tax liabilities		694	729	338
Provisions		2,518	2,914	1,405
Bonds, notes and subordinated debt		124,544	118,165	115,779
Other debt issues		6,129	4,686	4,663
External unitholders' liability		14,811	14,123	14,690
Other liabilities <sup>(3)</sup>		16,465	13,387	12,426
<b>Total liabilities</b>		<b>908,719</b>	<b>835,393</b>	<b>798,536</b>
<b>Net assets</b>		<b>49,868</b>	<b>47,908</b>	<b>47,478</b>
<b>Equity</b>				
Contributed equity	11	29,031	28,380	28,151
Reserves	11	(656)	(866)	(960)
Retained profits	11	20,867	20,377	20,269
<b>Total equity (parent entity interest)</b>		<b>49,242</b>	<b>47,891</b>	<b>47,460</b>
Non-controlling interest in controlled entities		626	17	18
<b>Total equity</b>		<b>49,868</b>	<b>47,908</b>	<b>47,478</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(2)</sup> Includes current tax assets and other new asset categories under AASB 9 (other debt instruments at amortised cost, equity instruments at fair value through other comprehensive income and equity instruments at fair value through profit or loss).

<sup>(3)</sup> Includes liability on acceptances and defined benefit superannuation plan liabilities.

## Condensed Cash Flow Statement

	Note	Half Year to		
		Mar 15 <sup>(1)</sup> \$m	Sep 14 \$m	Mar 14 \$m
<b>Cash flows from operating activities</b>				
Interest received		15,464	15,306	15,063
Interest paid		(8,740)	(8,663)	(8,483)
Dividends received		8	12	4
Income taxes paid		(1,537)	(1,217)	(1,492)
Other cash flows from operating activities before changes in operating assets and liabilities		1,163	(61)	(4,012)
Changes in operating assets and liabilities arising from cash flow movements		(2,150)	(10,229)	(3,463)
<b>Net cash provided by/(used in) operating activities</b>		<b>4,208</b>	<b>(4,852)</b>	<b>(2,383)</b>
<b>Net cash used in investing activities</b>				
		(1,799)	(5,029)	(2,013)
<b>Cash flows from financing activities</b>				
Repayments of bonds, notes and subordinated debt		(13,540)	(13,557)	(11,327)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		17,294	12,191	16,020
Proceeds from issue of ordinary shares, net of costs		800	2	7
Repayments of BNZ income securities, net of costs		-	(203)	-
Repayments of other contributed equity, net of costs		(1,014)	-	-
Proceeds from sale of interest in a subsidiary, net of costs		369	-	-
Proceeds from other debt issues, net of costs		1,331	-	1,699
Purchase of shares for dividend reinvestment plan neutralisation		-	-	(309)
Dividends and distributions paid (excluding dividend reinvestment plan)		(1,554)	(1,983)	(1,990)
<b>Net cash provided by/(used in) financing activities</b>		<b>3,686</b>	<b>(3,550)</b>	<b>4,100</b>
Net increase/(decrease) in cash and cash equivalents		6,095	(13,431)	(296)
Cash and cash equivalents at beginning of period		26,517	38,458	37,341
Effects of exchange rate changes on balance of cash held in foreign currencies		3,150	1,490	1,413
<b>Cash and cash equivalents at end of period</b>	<b>12</b>	<b>35,762</b>	<b>26,517</b>	<b>38,458</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

## Statement of Changes in Equity

Group	Contributed equity <sup>(1)</sup>	Reserves <sup>(1)</sup>	Retained profits <sup>(1)</sup>	Total	Non-controlling interest in controlled entities	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at 1 October 2013</b>	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 <sup>(3)</sup>						
Movement of non-controlling interest in controlled entities	-	-	-	-	(44)	(44)
<b>Balance at 31 March 2014</b>	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 (to)/from 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 <sup>(3)</sup>						
Movement of non-controlling interest in controlled entities	-	-	-	-	(1)	(1)
<b>Balance at 30 September 2014</b>	28,380	(866)	20,377	47,891	17	47,908
Restated for adoption of new accounting standards <sup>(2)</sup>	-	(587)	(465)	(1,052)	-	(1,052)
Net profit for the period	-	-	3,440	3,440	20	3,460
Other comprehensive income for the period	-	906	47	953	79	1,032
Total comprehensive income for the period	-	906	3,487	4,393	99	4,492
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	1,615	-	-	1,615	-	1,615
Redemption of Trust Preferred Securities II	(1,014)	-	(8)	(1,022)	-	(1,022)
Transfer from equity-based compensation reserve	186	(186)	-	-	-	-
Treasury shares adjustment relating to life insurance business	(136)	-	-	(136)	-	(136)
Transfer from/(to) retained profits	-	3	20	23	-	23
Equity-based compensation	-	74	-	74	-	74
Dividends paid	-	-	(2,257)	(2,257)	(3)	(2,260)
Distributions on other equity instruments	-	-	(109)	(109)	-	(109)
Changes in ownership interests <sup>(3)</sup>						
Disposal of non-controlling interest in GWB	-	-	(178)	(178)	515	337
Movement of other non-controlling interest in controlled entities	-	-	-	-	(2)	(2)
<b>Balance at 31 March 2015</b>	29,031	(656)	20,867	49,242	626	49,868

<sup>(1)</sup> Refer to Note 11 'Contributed Equity and Reserves' for detail.

<sup>(2)</sup> March 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 'Principal Accounting Policies' on page 78 for further information.

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

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## 1. Principal Accounting Policies

This interim financial report for the half year reporting period ended 31 March 2015 and has been prepared in accordance with the ASX Listing Rules, the *Corporations Act 2001* (Cth) and AASB 134 'Interim Financial Reporting'.

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

This interim financial report does not contain all disclosures of the type normally found within an annual financial report and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the Group as that given by the annual financial report. This report should be read in conjunction with the 2014 annual financial report and any public announcements made up until the date of this interim financial report.

Accounting policies are consistent with those applied in the 2014 annual financial report, except as disclosed below.

### a) New and amended standards and interpretations

#### AASB 9 'Financial Instruments' (2014)

The Group has elected to early adopt AASB 9 which is applied retrospectively from 1 October 2014. In accordance with the transition requirements, comparatives are not restated. The Group elected an accounting policy choice under AASB 9 to continue to apply the hedge accounting requirements under AASB 139 'Financial Instruments: Recognition and measurement'.

The adoption of AASB 9 resulted in the following changes to the Group's accounting policies:

#### Financial assets

The Group classifies its financial assets as subsequently measured at either amortised cost or fair value depending on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

The following summarises the key changes:

- The held to maturity (HTM) and available for sale (AFS) financial asset categories were removed
- A new asset category measured at fair value through other comprehensive income (FVOCI) was introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. A significant portion of the Group's AFS debt instruments were classified in this category

- A new asset category for non-traded equity investments measured at FVOCI was introduced. A significant portion of the Group's AFS equity instruments were classified in this category
- At transition, the Group elected to revoke previous fair value option designations that previously measured specific lending portfolios at fair value through profit or loss (FVTPL). These portfolios are subsequently accounted for at amortised cost.

#### Financial liabilities

Classification of financial liabilities remained largely unchanged for the Group. Financial liabilities continue to be measured at either amortised cost or FVTPL. The criteria for designating a financial liability at FVTPL by applying the fair value option also remains unchanged. The Group elected to revoke the previous fair value option designation for certain financial liabilities and subsequently classified these as deposits and other borrowings accounted for at amortised cost.

#### Changes to impairment of financial assets

The AASB 9 impairment requirements are based on an expected credit loss model, replacing the incurred loss methodology model under AASB 139. Key changes in the Group's accounting policy for impairment of financial assets are listed below.

The Group applies a three-stage approach to measuring expected credit losses (ECL) on debt instruments accounted for at amortised cost and FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

- i) Stage 1: 12-months ECL  
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised
- ii) Stage 2: Lifetime ECL – not credit impaired  
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised
- iii) Stage 3: Lifetime ECL – credit impaired  
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under AASB 139, the Group's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in credit quality of a financial asset.

The Group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive. The amount of the loss is recognised using a provision for doubtful debts account.

The Group considers its historical loss experience and adjusts this for current observable data. In addition, the Group uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. AASB 9 introduces the use of macroeconomic factors which include, but is not limited to, unemployment, interest rates, gross domestic product, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

In the case of the new asset category for debt instruments measured at FVOCI, the measurement of ECL is based on the three-stage approach as all other financial assets. The Group recognises the provision charge in profit and loss, with the corresponding amount recognised in other comprehensive income, with no reduction in the carrying amount of the asset in the balance sheet.

Overall, impairment under AASB 9 results in earlier recognition of credit losses than under AASB 139.

The following table summarises the impact on classification and measurement to the Group's financial assets and financial liabilities on 1 October 2014:

		As at 1 October 2014			
Financial assets	Note	Original measurement category under AASB 139	New measurement category under AASB 9	Original carrying amount under AASB 139	New carrying amount under AASB 9
				\$m	\$m
Cash and liquid assets		Loans and receivables	Amortised cost	41,034	41,034
Due from other banks		Loans and receivables	Amortised cost	39,088	39,088
Trading derivatives		Fair value through profit or loss	Fair value through profit or loss	57,389	57,389
Trading securities		Fair value through profit or loss	Fair value through profit or loss	44,212	44,212
Investments - available for sale (debt instruments)	(a)	Available for sale	Fair value through other comprehensive income	42,996	42,996
Investments - available for sale (equity instruments)	(b)	Available for sale	Fair value through other comprehensive income option	370	370
Investments - available for sale (equity instruments)	(c)	Available for sale	Fair value through profit or loss	20	20
Investments - held to maturity	(d)	Held to maturity	Amortised cost	1,401	1,397
Investments - held to maturity	(e)	Held to maturity	Fair value through profit or loss	1,518	1,423
Investments relating to life insurance business		Fair value through profit or loss	Fair value through profit or loss	85,032	85,032
		Fair value through profit or loss (under fair value option)	Fair value through profit or loss (under fair value option)	29,569	29,569
Other financial assets at fair value		Fair value through profit or loss (under fair value option)	Amortised cost	54,919	54,959
Other financial assets at fair value (Loans at fair value)	(f)	Fair value through profit or loss (under fair value option)	Amortised cost	54,919	54,959
Hedging derivatives		Hedging derivatives	Hedging derivatives	5,488	5,488
Loans and advances		Loans and receivables	Amortised cost	432,953	431,868
Loans and advances	(g)	Loans and receivables	Fair value through profit or loss	1,772	1,565
Due from customers on acceptances		Loans and receivables	Amortised cost	23,437	23,437
				<b>Original carrying amount under AASB 139</b>	<b>New carrying amount under AASB 9</b>
				<b>\$m</b>	<b>\$m</b>
Financial liabilities	Note	Original measurement category under AASB 139	New measurement category under AASB 9		
Other financial liabilities at fair value	(h)	Fair value through profit or loss (under fair value option)	Amortised cost	166	198

There are no other changes in the classification and measurement of financial liabilities of the Group. Refer to Note 1 (a) for respective accounting policies for financial liabilities.

- <sup>(a)</sup> Debt Instruments that were previously classified as investments – available for sale and carried at fair value through other comprehensive income (FVOCI) were assessed to have a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and accordingly, are classified at FVOCI under AASB 9 and included as 'debt instruments at fair value through other comprehensive income' in the balance sheet as at 1 October 2014.
- <sup>(b)</sup> Comprises of non-traded equity instruments previously classified as AFS equity investments under AASB 139 in which the Group has elected to apply the FVOCI Option under AASB 9. Accordingly, the assets will remain accounted for at FVOCI with no subsequent recycling of realised gains or losses permitted. These equity investments are now included in 'other assets' in the balance sheet as at 1 October 2014.
- <sup>(c)</sup> Comprises of non-traded equity instruments previously classified as AFS equity investments under AASB 139 in which the Group has elected to not apply the FVOCI Option under AASB 9. Accordingly, the assets will be accounted for at fair value through profit or loss (FVTPL). These equity investments are now included in 'other assets' in the balance sheet as at 1 October 2014.
- <sup>(d)</sup> Investments that were previously classified as held to maturity (HTM), accounted for at amortised cost under AASB 139, have been assessed as having a business model of holding to collect contractual cash flows which comprise of solely payments of principal and interest. Accordingly these instruments will be classified at amortised cost under the effective interest method. These debt instruments are now included in 'other debt instruments at amortised cost' within 'other assets' in the balance sheet as at 1 October 2014.
- <sup>(e)</sup> Other HTM investments within the Group's Specialised Group Asset (SGA) portfolio have been assessed to have an "other strategy" business model as at transition date as the Group was looking at options to realise these assets through sale in the short term, rather than holding to collect contractual cash flows. Accordingly these debt instruments are now required to be classified and measured at fair value through profit or loss (FVTPL) under AASB 9 and are now included in 'other financial assets at fair value' in the balance sheet at 1 October 2014.
- <sup>(f)</sup> The Group has elected to apply the one off option available at AASB 9 transition date to revoke the previous fair value option (FVO) designation made under AASB 139 in respect of \$54,919 million worth of loans carried at fair value in Australia and New Zealand. This de-designation has been elected primarily on the basis of a reduced accounting mismatch now arising on this portion of the fair value loan portfolio and therefore it was considered appropriate to reduce the operational complexity associated with measuring these loans at fair value. Accordingly these fair value loans will be classified under AASB 9 at amortised cost under the effective interest method and included in 'loans and advances' in the balance sheet at 1 October 2014. The effective interest rate of this portfolio determined as at 1 October 2014 was 5.8%. For the six month period ending 31 March 2015, interest income of \$1,340 million was recognised on these loans. The fair value gain that would have been recognised in profit or loss during the reporting period, if these loans had not been reclassified, would be \$54 million. The fair value of the loans remaining in this portfolio still held as at reporting date was \$42,026 million and the associated carrying value was \$42,100 million. There were no loans or other financial assets carried under FVO under AASB 139 for which the Group was required to revoke the FVO designation under AASB 9 (i.e. no longer an accounting mismatch arising where carrying these assets at FVTPL would reduce that mismatch).
- <sup>(g)</sup> Other loans and advances held within the NAB UK CRE and SGA portfolios were assessed to have an "other strategy" business model as at the transition date as the Group was looking at options to realise these assets through sale in the short term, rather than holding to collect contractual cash flows. Accordingly these loans are now required to be classified and measured at FVTPL under AASB 9 and are now included in 'other financial assets at fair value' in the balance sheet at 1 October 2014.
- <sup>(h)</sup> At AASB 9 transition date the Group was required to revoke the previous fair value option (FVO) designation made under AASB 139 in respect of \$166 million worth of deposit liabilities carried at fair value on the basis that there is no longer an accounting mismatch arising on this portion of the fair value deposits portfolio (i.e. the fair value option criteria was not met at 1 October 2014). Accordingly these fair value deposit liabilities will be classified under AASB 9 at amortised cost under the effective interest method and included in 'deposits and other borrowings' in the balance sheet at 1 October 2014. There were no other liabilities carried under FVO under AASB 139 in which the Group was required to revoke the FVO designation under AASB 9 (i.e. no longer an accounting mismatch arising where carrying these liabilities at FVTPL would reduce that mismatch).

The following table is a reconciliation of the carrying amount in the balance sheet from AASB 139 to AASB 9 as at 1 October 2014:

	AASB 139 carrying amount as at 30 Sep 2014 \$m	Reclassi- fication \$m	Remeas- urement \$m	AASB 9 carrying amount as at 1 Oct 2014 \$m	Retained profits impact as at 1 Oct 2014 \$m
<b>Investments - available for sale</b>					
Opening balance	43,386	-	-	-	-
Subtractions:					
To fair value through other comprehensive income - debt instruments (AASB 9) - required classification based on classification criteria	-	(42,996)	-	-	-
To fair value through other comprehensive income - equity instruments (AASB 9) - required classification based on classification criteria	-	(370)	-	-	-
To fair value through profit or loss (AASB 139) - required classification based on classification criteria	-	(20)	-	-	-
<b>Total investments - available for sale</b>	<b>43,386</b>	<b>(43,386)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Investments - held to maturity</b>					
Opening balance	2,919	-	-	-	-
Subtractions:					
To other debt instruments at amortised cost (AASB 9) - required classification based on classification criteria	-	(1,401)	-	-	-
To fair value through profit or loss (AASB 139) - required classification based on classification criteria	-	(1,518)	-	-	-
<b>Total investments - held to maturity</b>	<b>2,919</b>	<b>(2,919)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other financial assets at fair value through profit or loss (FVTPL)</b>					
Opening balance	84,488	-	-	84,488	-
Additions:					
From investments - held to maturity (AASB 139) - required classification based on classification criteria	-	1,518	(95)	1,423	(95)
From loans and advances at amortised cost (AASB 139) - required classification based on classification criteria	-	1,772	(207)	1,565	(207)
Subtractions:					
To loans and advances at amortised cost (AASB 9) - fair value option revoked at 1 Oct 2014 by election	-	(54,919)	-	(54,919)	-
<b>Total other financial assets at FVTPL</b>	<b>84,488</b>	<b>(51,629)</b>	<b>(302)</b>	<b>32,557</b>	<b>(302)</b>
<b>Debt instruments at fair value through other comprehensive income (FVOCI)</b>					
Opening balance	-	-	-	-	-
Additions:					
From investments - available for sale (AASB 139) - required classification	-	42,996	-	42,996	-
<b>Total debt instruments at FVOCI</b>	<b>-</b>	<b>42,996</b>	<b>-</b>	<b>42,996</b>	<b>-</b>
<b>Loans and advances at amortised cost</b>					
Opening balance	434,725	-	-	434,725	-
Additions:					
From fair value through profit or loss (AASB 139) - fair value option revoked at 1 Oct 2014 by election	-	54,919	40	54,959	40
Subtractions:					
To fair value through profit or loss (AASB 9) - required reclassification based on classification criteria	-	(1,772)	-	(1,772)	-
Increase in expected credit losses (AASB 9)	-	-	(1,085)	(1,085)	(1,085)
<b>Total loans and advances at amortised cost</b>	<b>434,725</b>	<b>53,147</b>	<b>(1,045)</b>	<b>486,827</b>	<b>(1,045)</b>
<b>Deferred tax asset</b>					
Opening balance	1,617	-	-	1,617	-
Increases:					
Remeasurement in expected credit losses	-	-	260	260	260
Remeasurement arising from reclassifications	-	-	86	86	86
<b>Total deferred tax asset</b>	<b>1,617</b>	<b>-</b>	<b>346</b>	<b>1,963</b>	<b>346</b>

	AASB 139 carrying amount as at 30 Sep 2014 \$m	Reclassi- fication \$m	Remeas- urement \$m	AASB 9 carrying amount as at 1 Oct 2014 \$m	Retained profits impact as at 1 Oct 2014 \$m
<b>Other assets</b>					
Opening balance	10,814	-	-	10,814	-
Additions:					
From investments - available for sale (AASB 139) - required classification based on classification criteria (Other equity instruments at FVTPL)	-	20	-	20	-
From investments - available for sale (AASB 139) - required classification based on classification criteria (Other equity instruments at FVOCI)	-	370	-	370	-
From investments - held to maturity (AASB 139) - required classification based on classification criteria (Other debt instruments at amortised cost)	-	1,401	(4)	1,397	(4)
<b>Total other assets</b>	<b>10,814</b>	<b>1,791</b>	<b>(4)</b>	<b>12,601</b>	<b>(4)</b>
<b>Total change to financial asset balances, reclassification and remeasurement at 1 Oct 2014</b>					
	577,949	-	(1,005)	576,944	(1,005)
<b>Other financial liabilities at fair value</b>					
Opening balance	28,973	-	-	28,973	-
Subtractions:					
To deposits and other borrowings at amortised cost - fair value option criteria not met at 1 Oct 2014	-	(166)	-	(166)	-
<b>Total other financial liabilities at fair value</b>	<b>28,973</b>	<b>(166)</b>	<b>-</b>	<b>28,807</b>	<b>-</b>
<b>Deposits and other borrowings</b>					
Opening balance	476,208	-	-	476,208	-
Additions:					
From other financial liabilities at fair value - fair value option criteria not met at 1 Oct 2014	-	166	32	198	32
<b>Total deposits and other borrowings</b>	<b>476,208</b>	<b>166</b>	<b>32</b>	<b>476,406</b>	<b>32</b>
<b>Current tax liabilities</b>					
Opening balance	729	-	-	729	-
Decreases:					
Remeasurement arising from reclassifications	-	-	(4)	(4)	(4)
<b>Total current tax asset</b>	<b>729</b>	<b>-</b>	<b>(4)</b>	<b>725</b>	<b>(4)</b>
<b>Other liabilities</b>					
Opening balance	13,387	-	-	13,387	-
Additions:					
Increase in deferred income from reclassification of loans to amortised cost - fair value option revoked at 1 Oct 2014 by election	-	-	19	19	19
<b>Total other liabilities</b>	<b>13,387</b>	<b>-</b>	<b>19</b>	<b>13,406</b>	<b>19</b>
<b>Total change to financial liabilities balances, reclassification and remeasurement at 1 Oct 2014</b>					
	519,297	-	47	519,344	47
<b>Fair value through other comprehensive income (FVOCI) reserve</b>					
Opening balance	-	-	-	-	-
Additions:					
From available for sale reserve (AASB 139) - required classification based on classification criteria	-	166	(7)	159	(7)
Subtractions:					
Increase in expected credit losses (AASB 9)	-	-	6	6	6
<b>Total FVOCI reserve</b>	<b>-</b>	<b>166</b>	<b>(1)</b>	<b>165</b>	<b>(1)</b>

	AASB 139 carrying amount as at 30 Sep 2014 \$m	Reclassi- fication \$m	Remeas- urement \$m	AASB 9 carrying amount as at 1 Oct 2014 \$m	Retained profits impact as at 1 Oct 2014 \$m
<b>Investments - available for sale reserve</b>					
Opening balance	166	-	-	-	-
Subtractions:					
To FVOCI reserve (AASB 9) - required classification based on classification criteria	-	(166)	-	-	-
<b>Total investments - available for sale reserve</b>	<b>166</b>	<b>(166)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>General reserve for credit losses</b>					
Opening balance	601	-	-	601	-
Decreases:					
Remeasurement of expected credit losses	-	-	(586)	(586)	(586)
<b>Total general reserve for credit losses</b>	<b>601</b>	<b>-</b>	<b>(586)</b>	<b>15</b>	<b>(586)</b>
<b>Retained profits</b>					
Opening balance	20,377	-	-	20,377	-
Increases / (decreases):					
Remeasurements due to reclassifications (after-tax)	-	-	(220)	(220)	(220)
Remeasurements due to impairment (after-tax)	-	-	(831)	(831)	(831)
Remeasurement of the general reserve for credit losses	-	-	586	586	586
<b>Total retained earnings</b>	<b>20,377</b>	<b>-</b>	<b>(465)</b>	<b>19,912</b>	<b>(465)</b>
<b>Total change to reserves balances, reclassification and remeasurement at 1 Oct 2014</b>	<b>21,144</b>	<b>-</b>	<b>(1,052)</b>	<b>20,092</b>	<b>(1,052)</b>

The following table is a reconciliation of the closing impairment allowance in accordance with AASB 139 to the opening impairment allowance determined in accordance with AASB 9 as at 1 October 2014. Changes to the impairment allowance under AASB 9 are due to reclassification of financial assets between amortised cost and fair value, and remeasurement of impairment using the expected credit loss requirements.

	AASB 139 opening balance as at 30 Sep 2014 \$m	Reclassi- fication \$m	Remeas- urement \$m	AASB 9 closing balance as at 1 Oct 2014 \$m
Provision on loans and advances at amortised cost	3,118	(402)	1,085	3,801
Provision on loans at fair value through profit or loss <sup>(1)</sup>	806	9	85	900
Provision on debt instruments at fair value through other comprehensive income <sup>(2)</sup>	-	-	6	6
<b>Total provision for doubtful debts and provisions held on assets at fair value</b>	<b>3,924</b>	<b>(393)</b>	<b>1,176</b>	<b>4,707</b>

<sup>(1)</sup> Included within the carrying value of other financial assets at fair value.

<sup>(2)</sup> Included within the fair value through other comprehensive income reserve.

*Other new standards and interpretations*

The Group has adopted the following new and amended standards and interpretations as of 1 October 2014 with no material impact:

- AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'
- AASB 2013-3 'Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets'
- AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'
- AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'
- AASB 2013-7 'Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policy holders'
- AASB 2014-1 'Part A Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle'
- AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'
- AASB 2014-1 'Part B Amendments to AASB 119', and
- AASB 2014-4 'Clarification of Acceptable Methods of Depreciation and Amortisation'.

**b) 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:

- provision 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
- 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.

With the exception of the assumptions used for the calculation for provision for doubtful debts arising from the adoption of AASB 9, no other significant change has occurred in this interim reporting period from those applied in 2014 annual financial report.

The impact of adopting AASB 9 is described in Note 1 (a) above, with further detail disclosed in Note 8 'Provision for Doubtful Debts' on page 93 and in Note 9 'Asset Quality' on page 95.

**c) 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.

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 are also included in this note to reconcile to Group information: UK Banking and Corporate Functions and Other.

Great Western Bank (GWB) and NAB UK Commercial Real Estate (NAB UK CRE)'s operations have been included in Corporate Functions and Other.

### Major Customers

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

Segment Information	Half Year ended 31 March 2015 <sup>(1)</sup>			
	Cash earnings \$m	Net interest income \$m	Total other income \$m	Total assets \$m
Australian Banking	2,574	5,319	1,408	748,124
NZ Banking	391	751	215	67,557
NAB Wealth	223	-	781	105,017
UK Banking	184	728	174	75,810
Corporate Functions & Other <sup>(2)</sup>	57	323	112	47,637
Distributions/Eliminations	(109)	-	(27)	(85,558)
<b>Total</b>	<b>3,320</b>	<b>7,121</b>	<b>2,663</b>	<b>958,587</b>

Segment Information	Half Year ended 30 September 2014			
	Cash earnings \$m	Net interest income \$m	Total other income \$m	Total assets \$m
Australian Banking	2,473	5,191	1,253	702,266
NZ Banking	373	701	224	59,872
NAB Wealth	191	-	717	96,886
UK Banking	153	685	188	69,972
Corporate Functions & Other <sup>(2)(3)</sup>	(1,066)	355	141	25,734
Distributions/Eliminations	(90)	-	(29)	(71,429)
<b>Total</b>	<b>2,034</b>	<b>6,932</b>	<b>2,494</b>	<b>883,301</b>

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
NZ Banking	365	681	225	61,148
NAB Wealth	174	-	723	93,484
UK Banking	131	682	188	67,211
Corporate Functions & Other <sup>(2)(3)</sup>	96	394	151	33,227
Distributions/Eliminations	(90)	-	(30)	(85,546)
<b>Total</b>	<b>3,150</b>	<b>6,843</b>	<b>2,644</b>	<b>846,014</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(2)</sup> NAB UK CRE has been incorporated into Corporate Functions and Other, including prior year comparatives.

<sup>(3)</sup> Corporate Functions and Other includes the impacts of provisions taken for UK related payment protection insurance and interest rate hedging products.



## Reconciliation information presented on a cash earnings to statutory net profit basis

Reconciliation of cash earnings to net profit attributable to owners of the Company	Half Year to		
	Mar 15 <sup>(1)</sup> \$m	Sep 14 \$m	Mar 14 \$m
Group cash earnings <sup>(2)</sup>	3,320	2,034	3,150
<i>Non-cash earnings items (after tax):</i>			
Distributions	109	90	90
Treasury shares	(317)	70	(113)
Fair value and hedge ineffectiveness	354	311	(228)
Life insurance economic assumption variation	25	(21)	1
Amortisation of acquired intangible assets	(51)	(45)	(44)
<b>Net profit attributable to owners of the Company</b>	<b>3,440</b>	<b>2,439</b>	<b>2,856</b>

Reconciliation of net interest income	Half Year to		
	Mar 15 <sup>(1)</sup> \$m	Sep 14 \$m	Mar 14 \$m
Net interest income on a cash earnings basis	7,121	6,932	6,843
NAB Wealth net adjustment <sup>(3)</sup>	(19)	(17)	(19)
<b>Net interest income on a statutory basis</b>	<b>7,102</b>	<b>6,915</b>	<b>6,824</b>

Reconciliation of other income and IoRE	Half Year to		
	Mar 15 <sup>(1)</sup> \$m	Sep 14 \$m	Mar 14 \$m
Other operating income on a cash earnings basis <sup>(2)</sup>	2,639	2,475	2,629
IoRE	24	19	15
Total other operating income and IoRE	2,663	2,494	2,644
NAB Wealth net adjustment <sup>(3)</sup>	606	147	195
Treasury shares	(361)	96	(118)
Fair value and hedge ineffectiveness	506	423	(327)
Life insurance economic assumption variation	36	(30)	1
Amortisation of acquired intangible assets	(1)	(1)	(15)
<b>Total other income and Net life insurance income on a statutory basis</b>	<b>3,449</b>	<b>3,129</b>	<b>2,380</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

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

<sup>(3)</sup> 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

	Half Year to		
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m
<b>Gains less losses on financial instruments at fair value</b>			
Trading securities	1,504	724	88
Trading derivatives:			
Trading and risk management purposes	(1,207)	(242)	485
Assets, liabilities and derivatives designated in hedge relationships <sup>(1)</sup>	401	452	(201)
Assets and liabilities designated at fair value	336	(130)	(140)
Other	(63)	(54)	17
<b>Total gains less losses on financial instruments at fair value</b>	<b>971</b>	<b>750</b>	<b>249</b>
<b>Other operating income</b>			
Dividend revenue	8	12	4
Gains from sale of investments, loans, property, plant and equipment and other assets	139	95	35
Banking fees	456	476	467
Money transfer fees	324	338	335
Fees and commissions	903	911	887
Investment management fees	123	123	115
Fleet management fees	16	15	15
Rentals received on leased vehicle assets	5	6	5
Other income	29	75	54
<b>Total other operating income</b>	<b>2,003</b>	<b>2,051</b>	<b>1,917</b>
<b>Total other income</b>	<b>2,974</b>	<b>2,801</b>	<b>2,166</b>

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

## 4. Operating Expenses

	Half Year to		
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m
<b>Personnel expenses</b>			
Salaries and related on-costs	1,802	1,700	1,704
Superannuation costs - defined contribution plans	147	142	135
Superannuation costs - defined benefit plans	(5)	21	30
Performance-based compensation:			
Cash	175	189	193
Equity-based compensation	74	70	83
Total performance-based compensation	249	259	276
Other expenses	136	118	147
<b>Total personnel expenses</b>	<b>2,329</b>	<b>2,240</b>	<b>2,292</b>
<b>Occupancy-related expenses</b>			
Operating lease rental expense	231	252	249
Other expenses	87	70	74
<b>Total occupancy-related expenses</b>	<b>318</b>	<b>322</b>	<b>323</b>
<b>General expenses</b>			
Fees and commission expense	141	181	141
Depreciation and amortisation of property, plant and equipment	155	153	153
Amortisation of intangible assets	204	211	185
Depreciation on leased vehicle assets	3	3	4
Operating lease rental expense	17	16	12
Advertising and marketing	120	135	112
Charge to provide for operational risk event losses <sup>(1)</sup>	75	1,284	252
Communications, postage and stationery	174	153	154
Computer equipment and software	341	297	308
Data communication and processing charges	59	55	55
Transport expenses	48	45	47
Professional fees	281	204	218
Travel	41	44	43
Loss on disposal of property, plant and equipment and other assets	6	5	1
Impairment losses recognised	3	294	-
Other expenses	278	240	256
<b>Total general expenses</b>	<b>1,946</b>	<b>3,320</b>	<b>1,941</b>
<b>Total operating expenses</b>	<b>4,593</b>	<b>5,882</b>	<b>4,556</b>

<sup>(1)</sup> Charge to provide for operational risk event losses includes an additional provision in relation to UK payment protection insurances of \$756 million and for the interest rate hedging products (IRHP) of \$449 million for September 2014 half year. The March 2014 half year comparative includes a \$205 million provision 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

	Half Year to		
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m
<b>Profit before income tax expense</b>	5,505	3,830	4,125
Deduct profit before income tax expense attributable to the statutory funds of the life insurance business and their controlled trusts	(783)	(179)	(285)
Total profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts, before income tax expense	4,722	3,651	3,840
<b>Prima facie income tax at 30%</b>	1,417	1,095	1,152
Add/(deduct): Tax effect of amounts not deductible/(assessable):			
Assessable foreign income	4	7	1
Foreign tax rate differences	(50)	54	(3)
Foreign branch income not assessable	(56)	(48)	(50)
Under/(over) provision in prior years	(9)	(23)	(14)
Offshore banking unit income	(13)	(18)	(17)
Restatement of deferred tax balances for UK and US tax rate changes	1	44	(2)
Treasury shares adjustment	64	(3)	30
Non-deductible hybrid distributions	20	20	15
Deferred tax asset no longer recognised	36	142	-
Other	41	57	(5)
<b>Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts</b>	1,455	1,327	1,107
Income tax expense/(benefit) attributable to the statutory funds of the life insurance business and their controlled trusts	590	64	159
<b>Total income tax expense</b>	2,045	1,391	1,266
<b>Effective tax rate, excluding statutory funds attributable to the life insurance business and their controlled trusts</b>	30.8%	36.3%	28.8%

**6. Dividends and Distributions**

The Group has recognised the following dividends on ordinary shares:

	Half Year to					
	31 Mar 15		30 Sep 14		31 Mar 14	
	Amount per share cents	Total amount \$m	Amount per share cents	Total amount \$m	Amount per share cents	Total amount \$m
<b>Dividends on ordinary shares</b>						
Dividends declared	99	2,343	99	2,330	97	2,279
Deduct: Bonus shares in lieu of dividend	n/a	(38)	n/a	(28)	n/a	(28)
Dividends paid by the Company	n/a	2,305	n/a	2,302	n/a	2,251
Deduct: Dividends on treasury shares	n/a	(48)	n/a	(45)	n/a	(50)
Add: Dividends paid by non-controlling interest in controlled entities	n/a	3	n/a	-	n/a	-
<b>Total dividends paid by the Group</b>	n/a	2,260	n/a	2,257	n/a	2,201

All dividends have been fully franked and have nil foreign income per share.

**Interim dividend**

On 7 May 2015, the directors declared the following dividend:

	Amount per share cents	Franked amount per share %	Foreign income per share %	Total amount \$m
<b>Dividends on ordinary shares</b>				
Interim dividend declared in respect of the year ending 30 September 2015	99	100	Nil	2,397

The record date for determining entitlements to the 2015 interim dividend is 19 May 2015. The interim dividend has been declared by the directors of the Company and is payable on 3 July 2015. The financial effect of this dividend has not been brought to account in the financial statements for the half year ended 31 March 2015 and will be recognised in subsequent financial reports.

	Half Year to					
	31 Mar 15		30 Sep 14		31 Mar 14	
	Amount per security cents <sup>(1)</sup>	Total amount \$m	Amount per security cents <sup>(1)</sup>	Total amount \$m	Amount per security cents <sup>(1)</sup>	Total amount \$m
<b>Dividends on preference shares</b>						
BNZ Income Securities 2	-	-	1.54	4	3.08	8
<b>Total dividends on preference shares</b>		-		4		8

<sup>(1)</sup> \$A equivalent.

	Half Year to					
	31 Mar 15		30 Sep 14		31 Mar 14	
	Amount per security \$	Total amount \$m	Amount per security \$	Total amount \$m	Amount per security \$	Total amount \$m
<b>Distributions on other equity instruments</b>						
National Income Securities	2.00	40	1.95	39	1.95	39
Trust Preferred Securities <sup>(1)</sup>	52.50	21	50.00	20	50.00	20
Trust Preferred Securities II <sup>(1)</sup>	51.25	41	30.00	24	30.00	24
National Capital Instruments	875.00	7	875.00	7	875.00	7
<b>Total distributions on other equity instruments</b>		109		90		90

<sup>(1)</sup> \$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 the Bonus Share Plan is 5pm (Australian Eastern Standard time) on 20 May 2015.

7. Loans and Advances including Acceptances

	As at		
	31 Mar 15 <sup>(1)</sup> \$m	30 Sep 14 \$m	31 Mar 14 \$m
Housing loans	330,340	312,039	300,627
Other term lending	182,263	170,105	165,882
Asset and lease financing	11,444	11,729	12,563
Overdrafts	9,214	10,521	12,060
Credit card outstandings	8,310	7,998	8,007
Other	9,199	8,946	8,643
Fair value adjustment	1,071	586	473
<b>Gross loans and advances</b>	<b>551,841</b>	<b>521,924</b>	<b>508,255</b>
Acceptances	21,649	23,437	25,917
<b>Gross loans and advances including acceptances</b>	<b>573,490</b>	<b>545,361</b>	<b>534,172</b>
<i>Represented by:</i>			
Loans and advances at fair value <sup>(2)</sup>	29,512	82,968	79,522
Loans and advances at amortised cost	522,329	438,956	428,733
Acceptances	21,649	23,437	25,917
<b>Gross loans and advances including acceptances</b>	<b>573,490</b>	<b>545,361</b>	<b>534,172</b>
Unearned income and deferred net fee income	(906)	(1,113)	(1,181)
Provision for doubtful debts	(3,743)	(3,118)	(3,841)
<b>Net loans and advances including acceptances</b>	<b>568,841</b>	<b>541,130</b>	<b>529,150</b>
<b>Securitised loans and loans supporting covered bonds <sup>(3)</sup></b>	<b>40,685</b>	<b>35,169</b>	<b>34,665</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(2)</sup> On the balance sheet, this amount is included within other financial assets at fair value. This amount is included in the product and geographical analysis below.

<sup>(3)</sup> 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
<b>As at 31 March 2015 <sup>(1)</sup></b>						
Housing loans	258,154	38,014	30,768	965	2,439	330,340
Other term lending	119,968	17,848	30,564	9,810	4,073	182,263
Asset and lease financing	10,190	1,244	8	-	2	11,444
Overdrafts	4,503	2,580	2,072	7	52	9,214
Credit card outstandings	6,266	702	1,298	44	-	8,310
Other	3,951	899	567	1	3,781	9,199
Fair value adjustment	837	124	53	57	-	1,071
<b>Gross loans and advances</b>	<b>403,869</b>	<b>61,411</b>	<b>65,330</b>	<b>10,884</b>	<b>10,347</b>	<b>551,841</b>
Acceptances	21,638	11	-	-	-	21,649
<b>Gross loans and advances including acceptances</b>	<b>425,507</b>	<b>61,422</b>	<b>65,330</b>	<b>10,884</b>	<b>10,347</b>	<b>573,490</b>
<i>Represented by:</i>						
Loans and advances at fair value	18,254	3,092	6,777	1,389	-	29,512
Loans and advances at amortised cost	385,615	58,319	58,553	9,495	10,347	522,329
Acceptances	21,638	11	-	-	-	21,649
<b>Gross loans and advances including acceptances</b>	<b>425,507</b>	<b>61,422</b>	<b>65,330</b>	<b>10,884</b>	<b>10,347</b>	<b>573,490</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

By product and geographic location	Australia \$m	Europe \$m	New Zealand \$m	United States \$m	Asia \$m	Total Group \$m
<b>As at 30 September 2014</b>						
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
<b>Gross loans and advances</b>	<b>384,838</b>	<b>60,500</b>	<b>57,683</b>	<b>9,266</b>	<b>9,637</b>	<b>521,924</b>
Acceptances	23,427	10	-	-	-	23,437
<b>Gross loans and advances including acceptances</b>	<b>408,265</b>	<b>60,510</b>	<b>57,683</b>	<b>9,266</b>	<b>9,637</b>	<b>545,361</b>
<i>Represented by:</i>						
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
<b>Gross loans and advances including acceptances</b>	<b>408,265</b>	<b>60,510</b>	<b>57,683</b>	<b>9,266</b>	<b>9,637</b>	<b>545,361</b>
<b>As at 31 March 2014</b>						
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
<b>Gross loans and advances</b>	<b>371,756</b>	<b>60,004</b>	<b>59,232</b>	<b>8,140</b>	<b>9,123</b>	<b>508,255</b>
Acceptances	25,905	12	-	-	-	25,917
<b>Gross loans and advances including acceptances</b>	<b>397,661</b>	<b>60,016</b>	<b>59,232</b>	<b>8,140</b>	<b>9,123</b>	<b>534,172</b>
<i>Represented by:</i>						
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
<b>Gross loans and advances including acceptances</b>	<b>397,661</b>	<b>60,016</b>	<b>59,232</b>	<b>8,140</b>	<b>9,123</b>	<b>534,172</b>

## 8. Provision for Doubtful Debts

	As at		
	31 Mar 15 \$m	30 Sep 14 \$m	31 Mar 14 \$m
<b>Specific provision for doubtful debts - Lifetime Expected Credit Losses (ECL)</b>	872	1,358	1,782
Collective provision for doubtful debts - Lifetime ECL	2,287	-	-
Collective provision for doubtful debts - 12 months ECL	584	-	-
<b>Total collective provision for doubtful debts <sup>(1)</sup></b>	<b>2,871</b>	<b>1,760</b>	<b>2,059</b>
<b>Total provision for doubtful debts</b>	<b>3,743</b>	<b>3,118</b>	<b>3,841</b>
Specific provision on loans at fair value <sup>(2)</sup>	35	96	172
Collective provision on loans and derivatives at fair value and other debt instruments <sup>(2)(3)</sup>	573	876	853
<b>Total provision for doubtful debts and provisions held on assets at fair value <sup>(4)</sup></b>	<b>4,351</b>	<b>4,090</b>	<b>4,866</b>

<sup>(1)</sup> The opening balance for the collective provision of doubtful debts measured under AASB 139 is now presented as 12-months and Lifetime expected credit losses following the adoption of AASB 9, with no restatement to prior period comparatives. Refer to Note 1(a) for information of the adoption of AASB 9.

<sup>(2)</sup> Included within the carrying value of other financial assets at fair value.

<sup>(3)</sup> Included within this amount is a collective provision relating to derivatives of \$255 million, (September 2014 \$165 million, March 2014 \$173 million). The March 2015 balance includes provisions on other debt instruments at amortised cost of \$1 million, and other debt instruments at fair value through other comprehensive income of \$6 million under AASB 9.

<sup>(4)</sup> Comparative period balances exclude provision on investments - held to maturity under AASB 139 (September 2014 \$26 million, March 2014 \$61 million).

### Movement in provisions for doubtful debts

	Half Year to 31 Mar 15 <sup>(1)</sup>					Total \$m
	Collective provision 12-mth ECL \$m	Collective provision Lifetime ECL not credit impaired \$m	Collective provision Lifetime ECL credit impaired \$m	Collective provision <sup>(1)</sup> \$m	Specific provision Lifetime ECL credit impaired \$m	
<b>Balance at the beginning of period</b>	-	-	-	1,760	1,358	<b>3,118</b>
Restated for adoption of new accounting standards <sup>(1)</sup>	559	1,639	567	(1,760)	(322)	<b>683</b>
Changes due to financial assets recognised in the opening balance that have:						
Transferred to 12-mth ECL	133	(110)	(23)	-	-	-
Transferred to Lifetime ECL not credit impaired	(37)	84	(47)	-	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(4)	(38)	42	-	-	-
Transfer to Lifetime ECL credit impaired - specific provision	-	(46)	(110)	-	156	-
Bad debts recovered	-	-	-	-	72	72
Bad debts written-off	-	-	-	-	(664)	(664)
Charge to income statement	(83)	247	48	-	241	453
Foreign currency translation and other adjustments	16	25	9	-	31	81
<b>Total provision for doubtful debts</b>	<b>584</b>	<b>1,801</b>	<b>486</b>	<b>-</b>	<b>872</b>	<b>3,743</b>

<sup>(1)</sup> March 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 'Principal Accounting Policies' on page 78 for further information.

	Half Year to Sep 14			Half Year to Mar 14		
	Specific \$m	Collective \$m	Total \$m	Specific \$m	Collective \$m	Total \$m
<b>Opening balance</b>	1,782	2,059	<b>3,841</b>	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
<b>Total provision for doubtful debts</b>	<b>1,358</b>	<b>1,760</b>	<b>3,118</b>	<b>1,782</b>	<b>2,059</b>	<b>3,841</b>



## Charge to provide for doubtful debts

	Half Year to		
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m
<b>Total charge for doubtful debts by geographic location</b>			
Australia	378	274	327
Europe	28	4	149
New Zealand	44	34	34
United States	18	6	3
Asia	(15)	17	15
<b>Total charge to provide for doubtful debts excluding investments - held to maturity</b>	<b>453</b>	<b>335</b>	<b>528</b>
Total (write-back)/charge on investments - held to maturity	-	(3)	(5)
<b>Total charge to provide for doubtful debts</b>	<b>453</b>	<b>332</b>	<b>523</b>

## 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).

Summary of total impaired assets	As at		
	31 Mar 15 \$m	30 Sep 14 \$m	31 Mar 14 \$m
Impaired assets <sup>(1)</sup>	2,478	3,926	5,432
Restructured loans <sup>(2)</sup>	80	196	182
Gross total impaired assets <sup>(3)</sup>	2,558	4,122	5,614
Specific provisions - total impaired assets	(907)	(1,454)	(1,954)
<b>Net total impaired assets</b>	<b>1,651</b>	<b>2,668</b>	<b>3,660</b>

<sup>(1)</sup> Impaired assets in comparative period balances exclude impaired conduit assets classified as investments - held to maturity under AASB 139 (September 2014 \$96 million, March 2014 \$213 million). These conduit assets were reclassified to financial assets at fair value through profit or loss upon transition to AASB 9, and subsequently sold during the period ending 31 March 2015.

<sup>(2)</sup> These loans represent facilities which have been classified as restructured for reasons relating to the financial difficulty of the counterparty. The restructured loans include \$6 million of restructured fair value assets (September 2014 \$7 million, March 2014 \$81 million).

<sup>(3)</sup> Gross impaired assets include \$73 million of gross impaired other financial assets at fair value (September 2014 \$187 million, March 2014 \$390 million).

Movement in gross impaired assets	Australia \$m	Europe \$m	New Zealand \$m	United States \$m	Asia \$m	Total Group \$m
<b>Balance as at 30 September 2013</b>	3,153	2,725	360	101	8	<b>6,347</b>
New	557	734	141	10	61	<b>1,503</b>
Written-off	(338)	(269)	(71)	(10)	-	<b>(688)</b>
Returned to performing or repaid	(1,016)	(543)	(76)	(40)	-	<b>(1,675)</b>
Foreign currency translation adjustments	-	107	20	1	(1)	<b>127</b>
<b>Balance as at 31 March 2014</b>	<b>2,356</b>	<b>2,754</b>	<b>374</b>	<b>62</b>	<b>68</b>	<b>5,614</b>
New	679	540	151	-	-	<b>1,370</b>
Written-off	(411)	(192)	(75)	(2)	(2)	<b>(682)</b>
Returned to performing or repaid	(699)	(489)	(185)	(19)	(10)	<b>(1,402)</b>
Disposals	-	(844)	-	-	-	<b>(844)</b>
Foreign currency translation adjustments	-	78	(16)	1	3	<b>66</b>
<b>Balance as at 30 September 2014</b>	<b>1,925</b>	<b>1,847</b>	<b>249</b>	<b>42</b>	<b>59</b>	<b>4,122</b>
New	474	155	125	29	1	<b>784</b>
Written-off	(290)	(203)	(30)	(8)	-	<b>(531)</b>
Returned to performing or repaid	(624)	(336)	(67)	(10)	(54)	<b>(1,091)</b>
Disposals	-	(834)	-	-	-	<b>(834)</b>
Foreign currency translation adjustments	-	74	26	7	1	<b>108</b>
<b>Gross impaired assets as at 31 March 2015</b>	<b>1,485</b>	<b>703</b>	<b>303</b>	<b>60</b>	<b>7</b>	<b>2,558</b>

Gross impaired assets to gross loans & acceptances - by geographic location	As at		
	31 Mar 15 <sup>(1)</sup> %	30 Sep 14 %	31 Mar 14 %
Australia	0.35	0.47	0.59
Europe	1.14	3.05	4.59
New Zealand	0.46	0.44	0.64
United States	0.55	0.45	0.76
Asia	0.07	0.61	0.75
<b>Total gross impaired assets to gross loans &amp; acceptances</b>	<b>0.45</b>	<b>0.76</b>	<b>1.05</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

Group coverage ratios	As at		
	31 Mar 15 <sup>(1)</sup> %	30 Sep 14 %	31 Mar 14 %
Net impaired assets to total equity (parent entity interest) <sup>(2)</sup>	3.4	5.6	7.7
Specific provision to gross impaired assets	35.5	35.3	34.8
Collective provision to credit risk-weighted assets <sup>(3)</sup>	1.01	0.83	0.91
90+ days past due plus gross impaired assets to gross loans and acceptances	0.85	1.19	1.52
Net write-offs to gross loans and acceptances (annualised) <sup>(4)</sup>	0.22	0.30	0.30
Total provision as a percentage of net write-offs (annualised) <sup>(5)</sup>	337	248	282
Total provision to gross loans and acceptances <sup>(5)</sup>	0.76	0.75	0.91

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(2)</sup> Net impaired assets include \$38 million of net impaired other financial assets at fair value (September 2014 \$91 million, March 2014 \$218 million).

<sup>(3)</sup> Includes collective provision against loans at amortised cost and collective provisions held on assets at fair value.

<sup>(4)</sup> March 2015 and 2014 metrics refer to the half year ratio annualised, September 2014 metrics refer to the full year ratio.

<sup>(5)</sup> Includes total provision against loans at amortised cost and total provisions held on asset at fair value.

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		
	31 Mar 15 \$m	30 Sep 14 \$m	31 Mar 14 \$m
Total non-impaired assets past due 90 days or more with adequate security	2,018	2,082	2,268
Total non-impaired portfolio managed facilities past due 90 to 180 days	274	260	258
<b>Total non-impaired 90+ days past due loans</b>	<b>2,292</b>	<b>2,342</b>	<b>2,526</b>
Total non-impaired 90+ days past due loans to gross loans and acceptances (%)	0.40	0.43	0.47

Non-impaired loans 90+ days past due - by geographic location	As at		
	31 Mar 15 \$m	30 Sep 14 \$m	31 Mar 14 \$m
Australia	1,731	1,692	1,634
Europe	349	449	640
New Zealand	199	186	236
United States	13	13	16
Asia	-	2	-
<b>Total non-impaired 90+ day past due loans</b>	<b>2,292</b>	<b>2,342</b>	<b>2,526</b>

## 10. Deposits and Other Borrowings

	As at		
	31 Mar 15 <sup>(1)</sup> \$m	30 Sep 14 \$m	31 Mar 14 \$m
Term deposits	162,865	165,675	165,420
On-demand and short-term deposits	215,579	191,333	184,553
Certificates of deposit	59,074	67,579	59,454
Deposits not bearing interest	38,380	34,060	31,095
<b>Total deposits</b>	<b>475,898</b>	<b>458,647</b>	<b>440,522</b>
Borrowings	26,401	17,372	18,842
Securities sold under agreements to repurchase	10,645	9,443	11,880
Fair value adjustment	6	(21)	(12)
<b>Total deposits and other borrowings</b>	<b>512,950</b>	<b>485,441</b>	<b>471,232</b>
<i>Represented by:</i>			
Total deposits and other borrowings at fair value <sup>(2)</sup>	8,973	9,233	8,935
Total deposits and other borrowings at amortised cost	503,977	476,208	462,297
<b>Total deposits and other borrowings</b>	<b>512,950</b>	<b>485,441</b>	<b>471,232</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(2)</sup> 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
<b>As at 31 March 2015 <sup>(1)</sup></b>						
Term deposits	110,595	12,425	24,577	2,786	12,482	162,865
On-demand and short-term deposits	148,544	35,016	17,306	13,837	876	215,579
Certificates of deposit	33,242	20,229	2,163	3,440	-	59,074
Deposits not bearing interest	30,029	3,611	2,897	1,817	26	38,380
<b>Total deposits</b>	<b>322,410</b>	<b>71,281</b>	<b>46,943</b>	<b>21,880</b>	<b>13,384</b>	<b>475,898</b>
Borrowings	19,720	-	2,682	3,999	-	26,401
Securities sold under agreements to repurchase	1,375	2,411	-	6,859	-	10,645
Fair value adjustment	-	10	(4)	-	-	6
<b>Total deposits and other borrowings</b>	<b>343,505</b>	<b>73,702</b>	<b>49,621</b>	<b>32,738</b>	<b>13,384</b>	<b>512,950</b>
<i>Represented by:</i>						
Total deposits and other borrowings at fair value	-	148	8,825	-	-	8,973
Total deposits and other borrowings at amortised cost	343,505	73,554	40,796	32,738	13,384	503,977
<b>Total deposits and other borrowings</b>	<b>343,505</b>	<b>73,702</b>	<b>49,621</b>	<b>32,738</b>	<b>13,384</b>	<b>512,950</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

By product and geographic location	Australia \$m	Europe \$m	New Zealand \$m	United States \$m	Asia \$m	Total Group \$m
<b>As at 30 September 2014</b>						
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
<b>Total deposits</b>	<b>313,500</b>	<b>70,439</b>	<b>41,925</b>	<b>20,317</b>	<b>12,466</b>	<b>458,647</b>
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)
<b>Total deposits and other borrowings</b>	<b>316,537</b>	<b>72,374</b>	<b>44,907</b>	<b>39,157</b>	<b>12,466</b>	<b>485,441</b>
<i>Represented by:</i>						
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
<b>Total deposits and other borrowings</b>	<b>316,537</b>	<b>72,374</b>	<b>44,907</b>	<b>39,157</b>	<b>12,466</b>	<b>485,441</b>

By product and geographic location	Australia \$m	Europe \$m	New Zealand \$m	United States \$m	Asia \$m	Total Group \$m
<b>As at 31 March 2014</b>						
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
<b>Total deposits</b>	<b>301,953</b>	<b>63,606</b>	<b>42,430</b>	<b>22,012</b>	<b>10,521</b>	<b>440,522</b>
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)
<b>Total deposits and other borrowings</b>	<b>304,672</b>	<b>67,466</b>	<b>45,577</b>	<b>42,996</b>	<b>10,521</b>	<b>471,232</b>
<i>Represented by:</i>						
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
<b>Total deposits and other borrowings</b>	<b>304,672</b>	<b>67,466</b>	<b>45,577</b>	<b>42,996</b>	<b>10,521</b>	<b>471,232</b>

## 11. Contributed Equity and Reserves

	As at		
	31 Mar 15 \$m	30 Sep 14 \$m	31 Mar 14 \$m
<b>Contributed equity</b>			
<b>Issued and paid-up ordinary share capital</b>			
Ordinary shares, fully paid	25,714	24,049	23,617
<b>Issued and paid-up preference share capital</b>			
BNZ Income Securities 2	-	-	203
<b>Other contributed equity</b>			
National Income Securities	1,945	1,945	1,945
Trust Preferred Securities	975	975	975
Trust Preferred Securities II <sup>(1)</sup>	-	1,014	1,014
National Capital Instruments	397	397	397
<b>Total contributed equity</b>	<b>29,031</b>	<b>28,380</b>	<b>28,151</b>

<sup>(1)</sup> Trust Preferred Securities II were redeemed on 23 March 2015.

	Half Year to		
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m
<b>Movements in issued and paid-up ordinary share capital</b>			
<b>Ordinary share capital</b>			
Balance at beginning of period	24,049	23,617	23,410
Shares issued:			
Dividend reinvestment plan	815	368	309
DRP underwritten allotments	800	-	-
Exercise of executive share options	-	2	7
Transfer from equity-based compensation reserve	186	15	167
Treasury shares adjustment relating to life insurance business	(136)	47	33
On market purchase of shares for dividend reinvestment plan neutralisation	-	-	(309)
<b>Balance at end of period</b>	<b>25,714</b>	<b>24,049</b>	<b>23,617</b>

	As at		
	31 Mar 15 <sup>(1)</sup> \$m	30 Sep 14 \$m	31 Mar 14 \$m
<b>Reserves</b>			
Asset revaluation reserve	81	81	79
Foreign currency translation reserve	(1,192)	(1,936)	(1,990)
Cash flow hedge reserve	51	(55)	(20)
Equity-based compensation reserve	162	277	217
General reserve for credit losses	-	601	563
Available for sale investments reserve	-	166	191
Debt instruments at fair value through other comprehensive income reserve	178	-	-
Equity instruments at fair value through other comprehensive income reserve	64	-	-
<b>Total reserves</b>	<b>(656)</b>	<b>(866)</b>	<b>(960)</b>

<sup>(1)</sup> March 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 'Principal Accounting Policies' on page 78 for further information.

	Half Year to		
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m
<b>Movements in reserves</b>			
<b>Asset revaluation reserve</b>			
Balance at beginning of period	81	79	79
Revaluation of land and buildings	-	3	-
Transfer to retained profits	-	(2)	-
Tax on revaluation adjustments	-	1	-
<b>Balance at end of period</b>	<b>81</b>	<b>81</b>	<b>79</b>

Movements in reserves	Half Year to		
	Mar 15 \$m	Sep 14 \$m	Mar 14 \$m
<b>Foreign currency translation reserve</b>			
Balance at beginning of period	(1,936)	(1,990)	(2,501)
Currency translation adjustments	862	37	537
Attributable to non-controlling interest	(77)	-	-
Tax on foreign currency translation reserve	(41)	17	(26)
<b>Balance at end of period</b>	<b>(1,192)</b>	<b>(1,936)</b>	<b>(1,990)</b>
<b>Cash flow hedge reserve</b>			
Balance at beginning of period	(55)	(20)	105
Gains/(Losses) on cash flow hedging instruments	116	41	(160)
(Gains)/Losses transferred to the income statement	(22)	(90)	6
Released on disposal of non-controlling interest	23	-	-
Tax on cash flow hedging instruments	(11)	14	29
<b>Balance at end of period</b>	<b>51</b>	<b>(55)</b>	<b>(20)</b>
<b>Equity-based compensation reserve</b>			
Balance at beginning of period	277	217	296
Equity-based compensation	74	75	88
Transfer to contributed equity	(186)	(15)	(167)
Transfer of options and rights lapsed to retained earnings	(5)	-	-
Tax on equity-based compensation	2	-	-
<b>Balance at end of period</b>	<b>162</b>	<b>277</b>	<b>217</b>
<b>General reserve for credit losses</b>			
Balance at beginning of period	601	563	539
Restated for adoption of new accounting standards <sup>(1)</sup>	(586)	-	-
Transfer (to)/from retained profits	(15)	38	24
<b>Balance at end of period</b>	<b>-</b>	<b>601</b>	<b>563</b>
<sup>(1)</sup> March 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 'Principal Accounting Policies' on page 78 for further information.			
<b>Available for sale investments reserve</b>			
Balance at beginning of period	166	191	62
Restated for adoption of new accounting standards <sup>(1)</sup>	(166)	-	-
Revaluation gains	-	58	205
Gains from sale transferred to the income statement	-	(59)	(35)
Impairment transferred to the income statement	-	4	-
Tax on available for sale investments reserve	-	(28)	(41)
<b>Balance at end of period</b>	<b>-</b>	<b>166</b>	<b>191</b>
<sup>(1)</sup> March 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 'Principal Accounting Policies' on page 78 for further information.			
<b>Debt instruments at fair value through other comprehensive income reserve</b>			
Balance at beginning of period	-	-	-
Restated for adoption of new accounting standards <sup>(1)</sup>	143	-	-
Revaluation gains	153	-	-
Gains from sale transferred to the income statement	(65)	-	-
Tax on debt instruments at fair value through other comprehensive income reserve	(51)	-	-
Attributable to non-controlling interest	(2)	-	-
<b>Balance at end of period</b>	<b>178</b>	<b>-</b>	<b>-</b>
<sup>(1)</sup> March 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 'Principal Accounting Policies' on page 78 for further information.			
<b>Equity instruments at fair value through other comprehensive income reserve</b>			
Balance at beginning of period	-	-	-
Restated for adoption of new accounting standards <sup>(1)</sup>	22	-	-
Revaluation gains	43	-	-
Tax on equity instruments at fair value through other comprehensive income reserve	(1)	-	-
<b>Balance at end of period</b>	<b>64</b>	<b>-</b>	<b>-</b>
<sup>(1)</sup> March 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 'Principal Accounting Policies' on page 78 for further information.			

	Half Year to		
	31 Mar 15 \$m	30 Sep 14 \$m	31 Mar 14 \$m
<b>Reconciliation of movement in retained profits</b>			
Balance at beginning of period	20,377	20,269	19,793
Restated for adoption of new accounting standards <sup>(1)</sup>	(465)	-	-
Actuarial (losses)/gains on defined benefit superannuation plans	(12)	104	(55)
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	73	(24)	(20)
Tax on items taken directly (from)/to equity	(14)	(24)	18
Net profit attributable to owners of the Company	3,440	2,439	2,856
Transfer from/(to) general reserve for credit losses	15	(38)	(24)
Transfer from asset revaluation reserve	-	2	-
Transfer of options and rights lapsed from equity-based compensation reserve	5	-	-
Dividends paid	(2,257)	(2,261)	(2,209)
Distributions on other equity instruments	(109)	(90)	(90)
Disposal of non-controlling interest in GWB	(178)	-	-
Reclassification of Trust Preferred Securities II transaction costs <sup>(2)</sup>	(8)	-	-
<b>Balance at end of period</b>	<b>20,867</b>	<b>20,377</b>	<b>20,269</b>

<sup>(1)</sup> March 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 'Principal Accounting Policies' on page 78 for further information.

<sup>(2)</sup> Relates to the reclassification of issuance related transaction costs previously deducted from the Trust Preferred Securities II equity instrument which was redeemed during the period.



**12. Notes to the Condensed Cash Flow Statement****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:

<b>Cash and cash equivalents</b>	<b>As at</b>		
	<b>31 Mar 15 \$m</b>	<b>30 Sep 14 \$m</b>	<b>31 Mar 14 \$m</b>
<b>Assets</b>			
Cash and liquid assets	32,967	41,034	38,095
Treasury and other eligible bills	1,132	885	179
Due from other banks (excluding mandatory deposits with supervisory central banks)	47,248	27,479	43,282
<b>Total cash and cash equivalents assets</b>	<b>81,347</b>	<b>69,398</b>	<b>81,556</b>
<b>Liabilities</b>			
Due to other banks	(45,585)	(42,881)	(43,098)
<b>Total cash and cash equivalents</b>	<b>35,762</b>	<b>26,517</b>	<b>38,458</b>

**Sale of interest in a subsidiary**

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 Group sold 31.8% of the common stock in Great Western Bancorp, Inc. through the public offering. Net proceeds realised by the Group were AUD \$369 million. A change in ownership without loss of control has been treated as an equity transaction and the loss on sale is recognised in retained earnings. Since the end of the half year, in May 2015, the Group completed a secondary public offering of Great Western Bancorp, Inc., reducing the Group's holding in Great Western Bancorp, Inc. to 28.5%.

**Sale of the NAB UK Commercial Real Estate portfolio**

In December 2014, the Group sold £1.2 billion of loans classified and measured at fair value through profit and loss from its NAB UK CRE portfolio to an affiliate of Cerberus Global Investors.

### 13. Fair Value of Financial Instruments

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

The table below shows a comparison of the carrying amounts, as reported on the balance sheet, and the fair values of those financial assets and liabilities that are measured at amortised cost where the carrying value recorded in the balance sheet does not approximate to fair value.

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

The fair value estimates are based on the methodologies and assumptions consistent with those applied in the 30 September 2014 annual financial report.

	As at 31 March 2015 <sup>(1)</sup>		As at 30 September 2014	
	Carrying Value \$m	Fair Value \$m	Carrying Value \$m	Fair Value \$m
<b>Financial assets</b>				
Investments - held to maturity	-	-	2,919	2,826
Loans and advances	517,680	519,075	434,725	434,874
<b>Financial liabilities</b>				
Deposits and other borrowings	503,977	504,396	476,208	476,326
Bonds, notes and subordinated debt	124,544	127,861	118,165	120,839

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

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

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

- Level 1 fair value measurements - quoted prices (unadjusted) in active markets for identical financial assets or liabilities
- Level 2 fair value measurements - inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3 fair value measurements - inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

	Fair value measurement as at 31 March 2015 <sup>(1)</sup>				Fair value measurement as at 30 September 2014			
	Quoted market prices (Level 1) \$m	Valuation techniques (observable inputs) (Level 2) \$m	Valuation techniques (significant non-observable inputs) (Level 3) \$m	Total \$m	Quoted market prices (Level 1) \$m	Valuation techniques (observable inputs) (Level 2) \$m	Valuation techniques (significant non-observable inputs) (Level 3) \$m	Total \$m
<b>Financial assets</b>								
Trading derivatives	1,181	75,658	33	76,872	494	56,877	18	57,389
Trading securities	19,735	21,151	-	40,886	18,019	26,193	-	44,212
Investments - available for sale	-	-	-	-	5,412	37,637	337	43,386
Debt instruments at fair value through other comprehensive income	6,964	40,131	4	47,099	-	-	-	-
Investments relating to life insurance business	4,579	85,190	3,196	92,965	4,394	78,000	2,638	85,032
Other financial assets at fair value	13	28,313	3,100	31,426	1	80,653	3,834	84,488
Hedging derivatives	-	9,479	-	9,479	-	5,488	-	5,488
<b>Total financial assets measured at fair value</b>	<b>32,472</b>	<b>259,922</b>	<b>6,333</b>	<b>298,727</b>	<b>28,320</b>	<b>284,848</b>	<b>6,827</b>	<b>319,995</b>
<b>Financial liabilities</b>								
Trading derivatives	1,428	75,478	7	76,913	677	55,174	7	55,858
Other financial liabilities at fair value	1,632	28,898	148	30,678	1,485	27,324	164	28,973
Hedging derivatives	-	5,448	-	5,448	-	3,445	-	3,445
Life investment contract liabilities	-	75,592	-	75,592	-	69,224	-	69,224
External unitholders' liability	-	14,811	-	14,811	-	14,123	-	14,123
<b>Total financial liabilities measured at fair value</b>	<b>3,060</b>	<b>200,227</b>	<b>155</b>	<b>203,442</b>	<b>2,162</b>	<b>169,290</b>	<b>171</b>	<b>171,623</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

There were no transfers between Level 1 and 2 in the period.

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

Half Year to 31 March 2015 <sup>(1)</sup>							
	Assets					Liabilities	
	Trading derivatives \$m	Investments available for sale <sup>(2)</sup> \$m	Debt instruments at fair value through other comprehensive income \$m	Investments relating to life insurance business <sup>(3)</sup> \$m	Other financial assets at fair value \$m	Trading derivatives \$m	Other financial liabilities at fair value \$m
Balance at the beginning of period	18	337	-	2,638	3,834	7	164
Impact from adoption of new Accounting Standards	-	(337)	3	-	1,565	-	-
Total gains/(losses)							
In profit or loss <sup>(4)</sup>	8	-	-	411	136	-	(1)
In other comprehensive income <sup>(5)</sup>	-	-	-	-	-	-	-
Purchases and issues	-	-	1	321	-	-	-
Sales and settlements	(1)	-	-	(174)	(2,646)	-	(17)
Transfers into Level 3 <sup>(6)</sup>	22	-	-	-	-	-	-
Transfers out of Level 3 <sup>(6)</sup>	(15)	-	-	-	-	-	-
Foreign currency translation adjustments	1	-	-	-	211	-	2
<b>Balance at the end of period</b>	<b>33</b>	<b>-</b>	<b>4</b>	<b>3,196</b>	<b>3,100</b>	<b>7</b>	<b>148</b>
Total gains/(losses) for the reporting period related to assets and liabilities held at the end of the reporting period							
- In profit or loss	8	-	-	355	112	-	-
- In other comprehensive income	-	-	-	-	-	-	-

Full Year to 30 September 2014							
	Assets					Liabilities	
	Trading derivatives \$m	Investments available for sale <sup>(2)</sup> \$m	Debt instruments at fair value through other comprehensive income \$m	Investments relating to life insurance business <sup>(3)</sup> \$m	Other financial assets at fair value \$m	Trading derivatives \$m	Other financial liabilities at fair value \$m
Balance at the beginning of period	70	157	-	2,873	5,375	6	208
Impact from adoption of new Accounting Standards	-	-	-	-	-	-	-
Total gains/(losses)							
In profit or loss <sup>(4)</sup>	(15)	-	-	404	(36)	1	(7)
In other comprehensive income <sup>(5)</sup>	-	8	-	-	-	-	-
Purchases and issues	-	159	-	169	-	-	-
Sales and settlements	(2)	-	-	(742)	(1,883)	-	(53)
Transfers into Level 3 <sup>(6)</sup>	32	-	-	-	-	-	-
Transfers out of Level 3 <sup>(6)</sup>	(70)	-	-	(65)	-	-	-
Foreign currency translation adjustments	3	13	-	(1)	378	-	16
<b>Balance at the end of year</b>	<b>18</b>	<b>337</b>	<b>-</b>	<b>2,638</b>	<b>3,834</b>	<b>7</b>	<b>164</b>
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:							
- In profit or loss	(10)	-	-	143	(89)	1	(7)
- In other comprehensive income	-	8	-	-	-	-	-

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(2)</sup> The significant majority of Level 3 investments - available for sale in the prior period are now classified as other equity instruments at fair value through other comprehensive income and included within other assets in the balance sheet. These remaining equity instruments are not considered material. Accordingly, no further information is disclosed.

<sup>(3)</sup> The gains and losses associated with the changes in the fair value of the investments relating to life insurance business are offset by the movements in the fair value of the life investment contract liabilities which are classified as Level 2.

<sup>(4)</sup> Net gains or losses were recorded in other operating income, interest income or interest expense or impairment losses as appropriate.

<sup>(5)</sup> Net gains or losses were recorded in debt instruments at fair value through other comprehensive income reserve.

<sup>(6)</sup> Transfers into Level 3 were due to the lack of observable inputs for valuation of certain financial instruments. Transfers out of Level 3 were due to the valuation inputs becoming observable during the period. Transfers between levels are deemed to have occurred at the beginning of the reporting period in which the instruments were transferred.

**Quantitative information about significant unobservable inputs in Level 3 valuations**

Investments relating to life insurance business include private equity investments not traded in active markets. The fair value of these investments is estimated on the basis of the actual and forecasted financial position and results of the underlying assets or net assets taking into consideration their risk profile and other factors. Given the bespoke nature of the fair value estimate, where the fair value of the underlying investment or net asset value represents fair value of the Group's investment, it is not practical to disclose the range of key unobservable inputs.

The fair value of other financial assets at fair value is calculated using discounted expected cash flows based on the maturity of the assets. The discount rates applied are based on the market interest rates at reporting date and the fair value incorporates future expectations of credit losses and the prepayment rate, which are unobservable inputs. The expected average lifetime default rates on non-defaulted assets are estimated in the range between 5.7% and 11.7% (2014: 5.7% and 11.2%). The impact of prepayment risk on the fair value at the reporting date is not material.

**Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions**

Where valuation techniques use non-observable inputs that are significant to a fair value measurement in its entirety, changing these inputs will change the resultant fair value measurement.

The most significant exposure to Level 3 fair value measurements for the Group is in respect of the UK Tailored Business Loans (TBL) fair value loans and private equity investments included in investments relating to life insurance business.

The most significant inputs impacting the carrying value of the UK TBL fair value loans, other than interest rates, are future expectations of credit losses and the expected payment profile of the loans. If the loans were to be repaid six months earlier than currently predicted, the carrying value of the loans would decline by \$10 million (2014: \$13 million). If lifetime expected losses were 20% greater than predicted, the carrying value of the loans would decrease by \$48 million (2014: \$49 million). If lifetime expected losses were 20% lower, the carrying value of the loans would increase by \$48 million (2014: \$49 million). There are interdependencies between a number of the key assumptions which adds to the complexity of the judgements the Group has exercised, which means that no single factor is likely to move independent of others, however, the sensitivities disclosed above assume all other assumptions remain unchanged.

Level 3 investments relating to the life insurance business largely comprise of private equity investments. Changing one or more of the inputs for measurement of these private equity investments using reasonable alternative assumptions would result in a change by the same amount to both the fair value of investments relating to life insurance business and life investment contract liabilities. Life investment contract liabilities are classified as Level 2 fair value measurements as the liabilities are not directly matched with individual underlying assets in the same statutory fund, and underlying assets with significant non-observable inputs are not significant to the fair value measurement of life investment contract liabilities in a statutory fund in their entirety.

Other than these significant Level 3 measurements, the Group has a limited remaining exposure to Level 3 fair value measurements, and changing one or more of the inputs for

fair value measurements in Level 3 to reasonably alternative assumptions would not change the fair value significantly with respect to profit or loss, total assets, total liabilities or equity in relation to these remaining Level 3 measurements.

## 14. 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 June 2015 pending the resolution of the exception fees class action against ANZ Banking Group Limited (ANZ). The ANZ action commenced in September 2010 and is effectively a 'test case' for exception fee claims against Australian banks. On 8 April 2015, the Full Court of the Federal Court delivered judgment on an appeal in the ANZ action. The Court found in favour of ANZ. The litigation funder that is funding the action has stated that an appeal to the High Court is expected to be pursued.

In March 2013, a potential representative action against New Zealand banks (including NAB's subsidiary 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. On 24 September 2014 and again on 30 April 2015, these proceedings were stayed pending the outcome of proceedings in Australia. 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 \$14 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).

As at 31 March 2015, a provision of \$931 million (£481 million) is held with respect to complaints and redress issues arising out of historic sales of PPI.

This 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 additional amounts that may need to be paid in respect of previously handled claims and any requirements to undertake further proactive customer contact. The requirement for further proactive customer contact will be determined by the Group undertaking a past business review. Where systemic sales failings are identified and there was a risk of a mis-sale, proactive mailing to customers will be undertaken. At this stage, the extent to which proactive mailings will be required as a result of the past business review is unknown.

These factors mean that the eventual costs of PPI redress and complaint handling may differ materially from the amount estimated and a further provision may 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 on 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 implemented 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. The exercise was formally closed to new claims on 31 March 2015.

In addition, Clydesdale has undertaken a review of all past fixed-rate TBL complaints relating to fixed-rate TBLs not currently in scope of the review noted above. This exercise has been undertaken to ensure that each complaint has been considered appropriately applying the principles from the two reviews noted above. Where the complaint assessment has identified a different outcome, the customer has been contacted and, if appropriate, redress offered. Clydesdale is also dealing with a number

of new claims by customers in relation to certain fixed rate TBLs not currently within the scope of the review.

Based on a number of factors relating to offers of redress, compensation, offers of alternative products, consequential loss claims and administrative costs for interest rate hedging products and in-scope TBLs, and the complaints-led review of certain fixed rate TBLs, a provision of \$410 million (£212 million) is held. The extent of future complaints relating to fixed rate TBLs, and the total costs relating to current complaints, are uncertain and further provisions may be required.

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 \$64 million (£33 million). The total cost associated with these and other conduct related matters is uncertain.

#### **(vii) Industry reviews by Australian regulators**

Regulators globally are continuing their investigation into manipulation of financial benchmarks. In Australia this includes examining potential wrongdoing in the bank bill swap reference rate and foreign exchange markets. NAB is cooperating with Australian regulators as part of these reviews. The outcomes and total cost associated with these reviews is uncertain.

#### **(viii) ASIC Wealth review**

Since September 2014, the Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including potential unethical or misleading financial advice and compensation processes for consumers impacted by that advice. The Committee is due to report by 1 February 2016. NAB appeared before the Committee on 6 March 2015 and committed to write to customers where misconduct has occurred in the last five years. The outcomes and total cost associated with this work is uncertain. NAB is also aware that two plaintiff law firms have advertised that they are investigating claims on behalf of NAB customers who have suffered losses as a result of financial advice received from NAB advisers. No formal action has yet been taken against the Group in this regard.

## 15. Events Subsequent to Reporting Date

### UK Banking exit

In October 2014 NAB signalled its plan to exit the Group's UK Banking business. On 7 May 2015 NAB announced its intention to pursue a public market option of a demerger of Clydesdale Bank's holding company National Australia Group Europe Ltd and its subsidiaries (Listco) and an initial public offering (IPO) of approximately 20-30% to institutional investors. Under the proposed demerger, Listco will have a primary listing on the London Stock Exchange (LSE) and a CHES Depository Interest (CDI) listing on the Australian Securities Exchange (ASX). NAB shareholders will have the option to receive shares or CDIs.

The UK Prudential Regulatory Authority (PRA) has advised that in order to demerge Listco, NAB will be required to provide capital support for Listco from potential losses related to legacy conduct costs. These are centred on payment protection insurance, interest rate hedging products and fixed rate tailored business loan conduct issues (further information can be found in *Note 14 'Contingent Liabilities'* on page 107) not covered by existing provisions, to a total cap of £1.7 billion provided that the demerger occurs within the intended timeframe. The cap amount is expected to be deducted from NAB's CET1 ratio upon completion of the demerger. While this figure is substantially in excess of NAB's own stress test scenario, the Group believes that the disadvantage of the capital deduction is outweighed by the benefits of separating the business. To the extent actual losses are ultimately lower than the £1.7 billion, this is expected to result in a commensurate CET1 benefit for NAB. The form of support, duration and final regulatory capital treatment of the £1.7 billion remains subject to on-going regulatory discussion.

While significant progress has been made including engagement with key stakeholders such as regulators, there is no certainty a transaction will occur. The proposed demerger and IPO remain subject to a range of matters, including shareholder approval and approvals from regulatory authorities in the UK and Australia, UK and Australian listing authorities and the boards of NAB and Listco. Additionally, the demerger and IPO will be a substantial and complex undertaking subject to a range of risks and issues.

### Capital raising and financial implications

On 7 May 2015 NAB announced that it will be undertaking a 2 for 25 fully underwritten pro rata accelerated renounceable rights issue with retail rights trading, to raise approximately \$5.5 billion. Approximately 194 million new NAB ordinary shares are to be issued (approximately 8.0% of issued capital). The capital raised will be used to support the UK demerger and to provide a capital buffer for potential regulatory changes.

### Life reinsurance agreement

On 7 May 2015 NAB Wealth announced it had received APRA approval for its life insurance business to enter into a reinsurance arrangement with a major global reinsurer for approximately 21% of its in-force retail advised insurance book.

The transaction is expected to release approximately \$500 million of CET1 capital (13 basis points) to the NAB Group. This is expected to result in a reduction in NAB

Wealth cash earnings of approximately \$25 million per annum.

The reinsurance arrangement reduces the Group's exposure to retail life insurance while ensuring continued distribution of life insurance products and services to the Group's customers.

The transaction is scheduled to take effect in the fourth quarter of financial year 2015. The final capital release is subject to APRA approval.

### GWB Secondary IPO

On 6 May 2015, National Americas Holdings LLC, a wholly owned subsidiary of NAB, completed a secondary public offering in respect of Great Western Bancorp, Inc. The total offer comprised 23 million shares of Great Western Bancorp, Inc.'s issued and outstanding common stock at a public offer price of US\$21.50 per share. The gross proceeds realised by NAB pursuant to the offer were US\$495 million, reducing NAB's ownership in Great Western Bancorp, Inc. to 28.5%. Due to the transactional arrangements, NAB retained power over Great Western Bancorp, Inc. and the transaction did not result in a loss of control. A change in ownership without loss of control is treated as an equity transaction and as a result does not impact the Group's income statement. NAB will also continue to consolidate Great Western Bancorp, Inc. for accounting purposes. Any release of capital as a result of the transaction will not be received until the Group de-consolidates Great Western Bancorp, Inc. and remains subject to APRA's determination.

Other than the matters referred to above, no other matter, item, transaction or event of a material or unusual nature has arisen in the interval between the end of the reporting period (31 March 2015) 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.



## Directors' Declaration

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

- a) as at the date of this declaration, there are reasonable grounds to believe that NAB will be able to pay its debts as and when they become due and payable; and
- a) the financial statements and the notes, as set out on pages 72 to 109, are in accordance with the *Corporations Act 2001* (Cth), including:
  - i) section 304, which requires that the half-year financial report comply with Accounting Standards made by the Australian Accounting Standards Board for the purposes of the *Corporations Act 2001* (Cth) and any further requirements in the *Corporations Regulations 2001*; and
  - i) section 305, which requires that the financial statements and notes give a true and fair view of the financial position of the Group as at 31 March 2015, and of the performance of the Group for the six months ended 31 March 2015.

Dated this 7th day of May, 2015 and signed in accordance with a resolution of the directors.



Michael A Chaney  
Chairman



Andrew Thorburn  
Group Chief Executive Officer



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## **To the members of National Australia Bank Limited**

### ***Report on the Half Year Financial Report***

We have reviewed the accompanying half year financial report of National Australia Bank Limited (the “Company”), which comprises the consolidated balance sheet as at 31 March 2015, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated condensed cash flow statement for the half year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors’ declaration of the consolidated entity comprising the Company and the entities it controlled (the “Group”) at the half year end or from time to time during the half year.

### ***Directors’ Responsibility for the Half Year Financial Report***

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

### ***Auditor’s responsibility***

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group’s financial position as at 31 March 2015 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of National Australia Bank Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### ***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Company a written Auditor’s Independence Declaration, a copy of which is included in the Directors’ Report.



## **Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of National Australia Bank Limited is not in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the Group's financial position as at 31 March 2015 and of its performance for the half year ended on that date; and
- b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Ernst & Young

A handwritten signature in black ink that appears to be 'AP' or similar initials.

Andrew Price  
Partner  
Melbourne

7 May 2015

**Section 6**

**Supplementary Information**

1. Net Interest Margins and Spreads	114
2. Loans and Advances by Industry and Geography	115
3. Average Balance Sheet and Related Interest	117
4. Capital Adequacy - Basel III	120
5. Earnings per Share	122
6. Net Tangible Assets	122
7. Asset Funding	123
8. Number of Ordinary Shares	124
9. Exchange Rates	124
10. ASX Appendix 4D	124
11. Divisional Performance Summary Excluding Foreign Currency Movements	125

## 1. Net Interest Margins and Spreads

Group	Half Year to			Mar 15 v Sep 14	Mar 15 v Mar 14
	Mar 15 %	Sep 14 %	Mar 14 %		
Net interest spread <sup>(1)</sup>	1.64	1.64	1.65	-	(1 bps)
Benefit of net free liabilities, provisions and equity	0.27	0.29	0.29	(2 bps)	(2 bps)
Net interest margin - statutory basis <sup>(2)</sup>	1.91	1.93	1.94	(2 bps)	(3 bps)

<sup>(1)</sup> Net interest spread represents the difference between the average interest rate earned and the average interest rate incurred on funds.

<sup>(2)</sup> Net interest margin (NIM) is net interest income as a percentage of average interest earning assets.

## Half year ended March 2015 v Half year ended March 2014

Contribution to Group Margin	Impact of		Impact on Group NIM
	Change in NIM <sup>(3) (4)</sup>	Change in Mix <sup>(5)</sup>	
Australian Banking	(5 bps)	-	(5 bps)
NZ Banking	1 bps	-	1 bps
UK Banking	-	-	-
Other <sup>(1)</sup>	-	-	-
<b>Group (excluding Liquid Assets, and Markets &amp; Treasury)</b>	(4 bps)	-	(4 bps)
Total Liquid Assets and Marketable Securities <sup>(2)</sup>	-	1 bps	1 bps
Markets & Treasury	(4 bps)	4 bps	-
<b>Total Group</b>	(8 bps)	5 bps	(3 bps)

<sup>(1)</sup> Includes Great Western Bank, NAB UK CRE, SGA, other supporting units and eliminations.

<sup>(2)</sup> Liquid asset and marketable securities volume impact only.

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

<sup>(4)</sup> 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.

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

## Half year ended March 2015 v Half year ended September 2014

Contribution to Group Margin	Impact of		Impact on Group NIM
	Change in NIM <sup>(3) (4)</sup>	Change in Mix <sup>(5)</sup>	
Australian Banking	(2 bps)	-	(2 bps)
NZ Banking	1 bps	-	1 bps
UK Banking	-	-	-
Other <sup>(1)</sup>	(1 bps)	-	(1 bps)
<b>Group (excluding Liquid Assets, and Markets &amp; Treasury)</b>	(2 bps)	-	(2 bps)
Total Liquid Assets and Marketable Securities <sup>(2)</sup>	-	1 bps	1 bps
Markets & Treasury	(6 bps)	5 bps	(1 bps)
<b>Total Group</b>	(8 bps)	6 bps	(2 bps)

<sup>(1)</sup> Includes Great Western Bank, NAB UK CRE, SGA, other supporting units and eliminations.

<sup>(2)</sup> Liquid Asset and Marketable Securities volume impact only.

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

<sup>(4)</sup> 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.

<sup>(5)</sup> 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 31 March 2015 <sup>(1)</sup>	Australia \$m	Europe \$m	New Zealand \$m	United States \$m	Asia \$m	Total \$m
Real estate - mortgage	258,154	38,014	30,768	965	2,439	330,340
Other commercial and industrial	53,876	8,518	7,471	4,890	4,022	78,777
Commercial property services	50,572	1,294	7,138	8	389	59,401
Agriculture, forestry, fishing and mining	20,203	3,074	12,843	2,283	80	38,483
Financial, investment and insurance	12,083	3,078	1,328	1,423	2,152	20,064
Asset and lease financing	10,190	1,244	8	-	2	11,444
Instalment loans to individuals and other personal lending (including credit cards)	9,328	3,189	1,647	100	1	14,265
Manufacturing	7,397	1,297	3,247	-	1,262	13,203
Real estate - construction	1,678	1,645	884	446	-	4,653
Government and public authorities	2,026	69	(4)	769	-	2,860
<b>Gross loans and advances including acceptances <sup>(2)</sup></b>	<b>425,507</b>	<b>61,422</b>	<b>65,330</b>	<b>10,884</b>	<b>10,347</b>	<b>573,490</b>
Deduct:						
Unearned income and deferred net fee income	(739)	(145)	20	(18)	(24)	(906)
Provisions for doubtful debts	(2,534)	(669)	(422)	(92)	(26)	(3,743)
<b>Total net loans and advances including acceptances</b>	<b>422,234</b>	<b>60,608</b>	<b>64,928</b>	<b>10,774</b>	<b>10,297</b>	<b>568,841</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(2)</sup> Includes loans at fair value.

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
<b>Gross loans and advances including acceptances <sup>(1)</sup></b>	<b>408,265</b>	<b>60,510</b>	<b>57,683</b>	<b>9,266</b>	<b>9,637</b>	<b>545,361</b>
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)
<b>Total net loans and advances including acceptances</b>	<b>405,596</b>	<b>59,281</b>	<b>57,482</b>	<b>9,200</b>	<b>9,571</b>	<b>541,130</b>

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

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

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

### 3. Average Balance Sheet and Related Interest

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

#### Average assets and interest income

	Half Year ended Mar 15 <sup>(1)</sup>			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 balance \$m	Interest \$m	Average rate %
<b>Average interest earning assets</b>									
Due from other banks									
Australia	12,142	130	2.1	10,977	103	1.9	11,711	108	1.8
Europe	23,289	92	0.8	24,130	84	0.7	25,742	83	0.6
Other International	20,554	86	0.8	21,790	65	0.6	21,403	49	0.5
Marketable debt securities									
Australia	68,139	1,089	3.2	60,292	978	3.2	54,869	1,021	3.7
Europe	9,368	53	1.1	9,281	62	1.3	8,373	65	1.6
Other International	13,912	137	2.0	12,174	125	2.0	13,811	135	2.0
Loans and advances - housing									
Australia	252,312	5,797	4.6	242,313	5,776	4.8	235,087	5,633	4.8
Europe	35,878	595	3.3	31,884	539	3.4	29,866	501	3.4
Other International	32,219	886	5.5	30,769	830	5.4	30,022	776	5.2
Loans and advances - non-housing									
Australia	163,593	4,773	5.9	158,691	4,896	6.2	159,477	4,874	6.1
Europe	24,355	533	4.4	26,916	589	4.4	30,218	652	4.3
Other International	48,742	1,264	5.2	45,762	1,185	5.2	44,006	1,104	5.0
Other interest earning assets									
Australia	7,822	188	n/a	10,095	176	n/a	9,358	171	n/a
Europe	21,628	56	n/a	20,473	58	n/a	22,561	59	n/a
Other International	11,455	47	n/a	10,446	43	n/a	10,666	38	n/a
<b>Total average interest earning assets and interest income by:</b>									
Australia	504,008	11,977	4.8	482,368	11,929	4.9	470,502	11,807	5.0
Europe	114,518	1,329	2.3	112,684	1,332	2.4	116,760	1,360	2.3
Other International	126,882	2,420	3.8	120,941	2,248	3.7	119,908	2,102	3.5
<b>Total average interest earning assets and interest income</b>	<b>745,408</b>	<b>15,726</b>	<b>4.2</b>	<b>715,993</b>	<b>15,509</b>	<b>4.3</b>	<b>707,170</b>	<b>15,269</b>	<b>4.3</b>
<b>Average non-interest earning assets</b>									
Investments relating to life insurance business <sup>(2)</sup>									
Australia	88,337			83,847			79,735		
Other International	63			62			64		
Other assets	108,419			73,282			70,961		
<b>Total average non-interest earning assets</b>	<b>196,819</b>			<b>157,191</b>			<b>150,760</b>		
Provision for doubtful debts									
Australia	(2,545)			(1,836)			(2,078)		
Europe	(824)			(1,103)			(1,522)		
Other International	(434)			(322)			(333)		
<b>Total average assets</b>	<b>938,424</b>			<b>869,923</b>			<b>853,997</b>		

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(2)</sup> 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 Mar 15 <sup>(1)</sup>			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 balance \$m	Interest \$m	Average rate %
<b>Average interest bearing liabilities</b>									
Due to other banks									
Australia	27,379	306	2.2	26,398	316	2.4	25,991	294	2.3
Europe	17,440	26	0.3	12,305	16	0.3	11,473	15	0.3
Other International	4,613	30	1.3	4,903	35	1.4	4,600	32	1.4
On-demand and short-term deposits									
Australia	143,953	1,632	2.3	134,451	1,594	2.4	124,801	1,483	2.4
Europe	32,963	53	0.3	29,600	42	0.3	28,153	41	0.3
Other International	28,378	221	1.6	30,393	201	1.3	29,212	165	1.1
Certificates of deposit									
Australia	34,358	464	2.7	35,869	479	2.7	33,975	443	2.6
Europe	20,909	32	0.3	20,029	27	0.3	24,657	33	0.3
Other International	6,317	43	1.4	8,574	43	1.0	8,461	40	0.9
Term deposits									
Australia	111,026	1,948	3.5	112,463	2,053	3.6	116,415	2,215	3.8
Europe	13,607	139	2.0	14,648	150	2.0	16,847	170	2.0
Other International	38,978	607	3.1	37,617	571	3.0	37,599	535	2.9
Other borrowings									
Australia	12,802	65	1.0	2,774	29	2.1	2,412	28	2.3
Europe	5,009	19	0.8	6,404	19	0.6	7,752	19	0.5
Other International	23,786	26	0.2	27,815	22	0.2	24,965	21	0.2
Bonds, notes and subordinated debt									
Australia	107,895	2,131	4.0	102,583	2,140	4.2	100,962	2,222	4.4
Europe	7,348	79	2.2	6,322	73	2.3	5,485	73	2.7
Other International	23,576	308	2.6	21,396	282	2.6	21,794	286	2.6
Other interest bearing liabilities									
Australia	3,507	267	n/a	3,262	276	n/a	3,305	167	n/a
Europe	1,228	-	n/a	425	24	n/a	715	4	n/a
Other International	2,015	228	n/a	1,713	202	n/a	1,651	159	n/a
<b>Total average interest bearing liabilities and interest expense by:</b>									
Australia	440,920	6,813	3.1	417,800	6,887	3.3	407,861	6,852	3.4
Europe	98,504	348	0.7	89,733	351	0.8	95,082	355	0.7
Other International	127,663	1,463	2.3	132,411	1,356	2.0	128,282	1,238	1.9
<b>Total average interest bearing liabilities and interest expense</b>	<b>667,087</b>	<b>8,624</b>	<b>2.6</b>	<b>639,944</b>	<b>8,594</b>	<b>2.7</b>	<b>631,225</b>	<b>8,445</b>	<b>2.7</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

Average liabilities and equity

	Half year ended		
	Mar 15 <sup>(1)</sup> \$m	Sep 14 \$m	Mar 14 \$m
<b>Average non-interest bearing liabilities</b>			
Deposits not bearing interest			
Australia	28,510	25,198	23,340
Europe	3,591	3,348	3,141
Other International	4,350	3,771	3,727
Life insurance policy liabilities			
Australia	74,800	70,197	66,185
Other International	-	-	1
Other liabilities	111,587	80,008	80,088
<b>Total average non-interest bearing liabilities</b>	<b>222,838</b>	<b>182,522</b>	<b>176,482</b>
<b>Total average liabilities</b>	<b>889,925</b>	<b>822,466</b>	<b>807,707</b>
<b>Average equity</b>			
Contributed equity	29,103	28,124	27,950
Reserves	(1,023)	(938)	(1,034)
Retained profits	19,902	20,253	19,356
Parent entity interest	47,982	47,439	46,272
Non-controlling interest in controlled entities	517	18	18
<b>Total average equity</b>	<b>48,499</b>	<b>47,457</b>	<b>46,290</b>
<b>Total average liabilities and equity</b>	<b>938,424</b>	<b>869,923</b>	<b>853,997</b>

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

#### 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 capital. Additionally, any profits from these activities included in the Group's results are excluded from Common Equity Tier 1 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 conservative capital buffer in excess of minimum regulatory requirements.

	As at		
	31 Mar 15 \$m	30 Sep 14 \$m	31 Mar 14 \$m
<b>Reconciliation to shareholders' funds</b>			
Contributed equity	29,031	28,380	28,151
Reserves	(656)	(866)	(960)
Retained profits	20,867	20,377	20,269
Non-controlling interest in controlled entities	626	17	18
<b>Total equity per consolidated balance sheet</b>	<b>49,868</b>	<b>47,908</b>	<b>47,478</b>
Equity-accounted Additional Tier 1 capital before application of Basel III transitional arrangements	(3,317)	(4,331)	(4,535)
Non-controlling interest in controlled entities	(377)	(17)	(18)
Treasury shares	1,911	1,570	1,790
Eligible deferred fee income	-	-	39
General reserve for credit losses	-	(601)	(563)
Deconsolidation of Wealth Management equity	(233)	(203)	(376)
<b>Common Equity Tier 1 Capital before regulatory adjustments</b>	<b>47,852</b>	<b>44,326</b>	<b>43,815</b>
Banking goodwill and other intangibles	(1,482)	(1,374)	(1,346)
Wealth Management goodwill and other intangibles	(4,034)	(4,081)	(4,108)
Investment in non-consolidated controlled entities (net of intangible component)	(1,926)	(1,879)	(1,843)
DTA in excess of DTL	(1,891)	(1,743)	(1,547)
Capitalised expenses	(257)	(139)	(161)
Capitalised software (excluding Wealth Management)	(2,294)	(2,073)	(2,170)
Defined benefit pension scheme surplus	(195)	(112)	(19)
Change in own creditworthiness	203	253	188
Cash flow hedge reserve	(56)	49	10
Equity exposures	(598)	(585)	(642)
Expected loss in excess of eligible provisions	(90)	(337)	(421)
Other	(338)	(591)	(20)
<b>Common Equity Tier 1 Capital</b>	<b>34,894</b>	<b>31,714</b>	<b>31,736</b>
Transitional Additional Tier 1 Capital instruments	4,240	4,845	4,845
Basel III eligible Additional Tier 1 Capital instruments	4,574	3,199	3,196
Eligible Additional Tier 1 Capital for non-controlling interest	44	-	-
Regulatory adjustments to Additional Tier 1 Capital	-	-	(3)
<b>Additional Tier 1 Capital</b>	<b>8,858</b>	<b>8,044</b>	<b>8,038</b>
<b>Tier 1 Capital</b>	<b>43,752</b>	<b>39,758</b>	<b>39,774</b>
Collective provision for doubtful debts - Standardised approach	551	548	554
IRB approach surplus provisions on non-defaulted exposures	-	-	45
Transitional Tier 2 Capital instruments	3,935	4,498	4,498
Basel III eligible Tier 2 Capital instruments	2,160	-	-
Eligible Tier 2 Capital for non-controlling interest	59	-	-
Regulatory adjustments to Tier 2 Capital	(102)	(83)	(192)
<b>Tier 2 Capital</b>	<b>6,603</b>	<b>4,963</b>	<b>4,905</b>
<b>Total Capital</b>	<b>50,355</b>	<b>44,721</b>	<b>44,679</b>
<b>Risk-weighted assets</b>			
Credit risk	340,227	318,374	318,339
Market risk	5,821	4,923	5,791
Operational risk	40,000	36,534	36,280
Interest rate risk in the banking book	7,190	7,821	6,814
<b>Total risk-weighted assets</b>	<b>393,238</b>	<b>367,652</b>	<b>367,224</b>
<b>Risk-based regulatory capital ratios</b>			
Common Equity Tier 1	8.87%	8.63%	8.64%
Tier 1	11.13%	10.81%	10.83%
<b>Total Capital</b>	<b>12.81%</b>	<b>12.16%</b>	<b>12.17%</b>

	Risk-Weighted Assets as at			Exposures as at		
	31 Mar 15 \$m	30 Sep 14 \$m	31 Mar 14 \$m	31 Mar 15 \$m	30 Sep 14 \$m	31 Mar 14 \$m
<b>Credit risk <sup>(1)</sup></b>						
<b>IRB approach</b>						
Corporate (including SME) <sup>(2)</sup>	122,190	111,078	106,555	248,954	234,372	225,909
Sovereign	1,762	1,608	1,690	75,753	65,322	62,204
Bank	12,711	11,341	12,998	79,920	66,908	71,436
Residential Mortgage	60,987	58,274	60,301	334,743	317,400	307,538
Qualifying revolving retail	3,773	3,641	3,649	11,169	10,882	11,167
Retail SME	6,667	6,165	6,476	16,323	16,194	16,603
Other retail	3,590	3,255	3,467	4,829	4,522	4,748
<b>Total IRB approach</b>	<b>211,680</b>	<b>195,362</b>	<b>195,136</b>	<b>771,691</b>	<b>715,600</b>	<b>699,605</b>
<b>Specialised lending (SL)</b>	<b>53,415</b>	<b>52,542</b>	<b>52,514</b>	<b>62,721</b>	<b>62,138</b>	<b>62,918</b>
<b>Standardised approach</b>						
Australian and foreign governments	205	86	68	17,605	12,304	2,955
Bank	222	107	156	2,490	1,650	12,701
Residential mortgage	19,603	18,773	18,790	47,919	44,423	42,116
Corporate	26,671	25,451	23,971	68,386	67,745	49,973
Other	3,349	3,298	3,172	3,934	3,870	3,728
<b>Total standardised approach</b>	<b>50,050</b>	<b>47,715</b>	<b>46,157</b>	<b>140,334</b>	<b>129,992</b>	<b>111,473</b>
<b>Other</b>						
Securitisation	2,701	4,210	5,868	18,341	16,990	17,245
Credit value adjustment	13,383	10,340	10,221	-	-	-
Central counterparty default fund contribution guarantee	343	344	220	-	-	-
Other <sup>(3)</sup>	8,655	7,861	8,223	11,364	10,182	9,968
<b>Total other</b>	<b>25,082</b>	<b>22,755</b>	<b>24,532</b>	<b>29,705</b>	<b>27,172</b>	<b>27,213</b>
<b>Total credit risk</b>	<b>340,227</b>	<b>318,374</b>	<b>318,339</b>	<b>1,004,451</b>	<b>934,902</b>	<b>901,209</b>
<b>Market risk</b>	<b>5,821</b>	<b>4,923</b>	<b>5,791</b>			
<b>Operational risk</b>	<b>40,000</b>	<b>36,534</b>	<b>36,280</b>			
<b>Interest rate risk in the banking book</b>	<b>7,190</b>	<b>7,821</b>	<b>6,814</b>			
<b>Total risk-weighted assets &amp; exposures</b>	<b>393,238</b>	<b>367,652</b>	<b>367,224</b>			

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

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

<sup>(3)</sup> 'Other' includes non-lending asset exposures.

## 5. Earnings per Share

Earnings per Share	Half Year to					
	Mar 15		Sep 14		Mar 14	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
<b>Earnings (\$m)</b>						
Net profit attributable to owners of the Company	3,440	3,440	2,439	2,439	2,856	2,856
Distributions on other equity instruments	(109)	(109)	(94)	(94)	(98)	(98)
Potential dilutive adjustments (after tax)						
Interest expense on convertible preference shares	-	71	-	70	-	54
Adjusted earnings	3,331	3,402	2,345	2,415	2,758	2,812
<b>Weighted average ordinary shares (no. '000)</b>						
Weighted average ordinary shares (net of treasury shares)	2,339,881	2,339,881	2,303,383	2,303,383	2,290,451	2,290,451
Potential dilutive weighted average ordinary shares						
Performance options and performance rights	-	4,060	-	6,293	-	6,865
Partly paid ordinary shares	-	48	-	49	-	49
Employee share plans	-	3,437	-	4,480	-	4,752
Convertible preference shares	-	86,492	-	96,636	-	72,525
Total weighted average ordinary shares	2,339,881	2,433,918	2,303,383	2,410,841	2,290,451	2,374,642
<b>Earnings per share (cents)</b>	142.4	139.8	101.8	100.2	120.4	118.4

Cash Earnings per Share	Half Year to					
	Mar 15		Sep 14		Mar 14	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
<b>Earnings (\$m)</b>						
Cash earnings <sup>(1)</sup>	3,320	3,320	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	-	71	-	70	-	54
Adjusted cash earnings	3,320	3,391	2,030	2,100	3,142	3,196
<b>Weighted average ordinary shares (no. '000)</b>						
Weighted average ordinary shares	2,397,073	2,397,073	2,359,336	2,359,336	2,349,304	2,349,304
Potential dilutive weighted average ordinary shares						
Performance options and performance rights	-	4,060	-	6,293	-	6,865
Partly paid ordinary shares	-	48	-	49	-	49
Employee share plans	-	3,437	-	4,480	-	4,752
Convertible preference shares	-	86,492	-	96,636	-	72,525
Total weighted average ordinary shares	2,397,073	2,491,110	2,359,336	2,466,794	2,349,304	2,433,495
<b>Cash earnings per share (cents)</b>	138.5	136.1	86.0	85.1	133.7	131.3

<sup>(1)</sup> 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		
	31 Mar 15 <sup>(1)</sup>	30 Sep 14	31 Mar 14
Net tangible assets per ordinary share (\$) <sup>(2)</sup>	15.65	15.15	14.91

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(2)</sup> Represents net assets excluding intangible assets, non-controlling interests, preference shares and other equity instruments divided by ordinary shares on issue at the end of the half year.

7. Asset Funding

	As at			Mar 15 vs Sep 14 %	Mar 15 vs Mar 14 %
	Mar 15 <sup>(1)</sup> \$m	Sep 14 \$m	Mar 14 \$m		
<b>Core assets</b>					
Gross loans and advances	522,329	438,956	428,733	19.0	21.8
Loans at fair value	29,512	82,968	79,522	(64.4)	(62.9)
Other financial assets at fair value	782	-	21	large	large
Due from customers on acceptances	21,649	23,437	25,917	(7.6)	(16.5)
Investments - held to maturity	-	2,919	3,708	-	-
Other debt instruments at amortised cost	1,151	-	-	-	-
<b>Total core assets</b>	<b>575,423</b>	<b>548,280</b>	<b>537,901</b>	<b>5.0</b>	<b>7.0</b>
<b>Customer deposits</b>					
On-demand and short-term deposits	215,331	191,073	184,264	12.7	16.9
Term deposits	158,990	161,116	161,869	(1.3)	(1.8)
Deposits not bearing interest	38,380	34,060	31,095	12.7	23.4
Customer deposits at fair value	4,139	4,805	3,826	(13.9)	8.2
<b>Total customer deposits</b>	<b>416,840</b>	<b>391,054</b>	<b>381,054</b>	<b>6.6</b>	<b>9.4</b>
<b>Wholesale funding</b>					
Bonds, notes and subordinated debt	124,544	118,165	115,779	5.4	7.6
Other debt issues	6,129	4,686	4,663	30.8	31.4
Preference shares and other contributed equity	3,317	4,331	4,534	(23.4)	(26.8)
Certificates of deposit	56,912	66,127	57,486	(13.9)	(1.0)
Securities sold under repurchase agreements	10,645	9,443	11,880	12.7	(10.4)
Due to other banks - Securities sold under repurchase agreements	24,391	25,341	26,970	(3.7)	(9.6)
Due to other banks	23,555	19,863	17,911	18.6	31.5
Other borrowings	23,719	14,389	15,703	64.8	51.0
Other financial liabilities at fair value	26,539	24,168	23,461	9.8	13.1
<b>Total wholesale funding</b>	<b>299,751</b>	<b>286,513</b>	<b>278,387</b>	<b>4.6</b>	<b>7.7</b>
<b>Total funding liabilities</b>	<b>716,591</b>	<b>677,567</b>	<b>659,441</b>	<b>5.8</b>	<b>8.7</b>
Total equity excluding preference shares and other contributed equity	46,551	43,577	42,944	6.8	8.4
Life insurance liabilities <sup>(2)</sup>	93,407	85,824	82,320	8.8	13.5
Other liabilities	102,038	76,333	61,309	33.7	66.4
<b>Total liabilities and equity</b>	<b>958,587</b>	<b>883,301</b>	<b>846,014</b>	<b>8.5</b>	<b>13.3</b>
<b>Wholesale funding by maturity</b>					
Short-term funding	111,599	107,921	98,453	3.4	13.4
Securities sold under repurchase agreements	35,036	34,784	38,850	0.7	(9.8)
Term funding:					
less than 1 year residual maturity	30,355	34,042	32,714	(10.8)	(7.2)
greater than 1 year residual maturity	122,761	109,766	108,370	11.8	13.3
<b>Total wholesale funding by maturity</b>	<b>299,751</b>	<b>286,513</b>	<b>278,387</b>	<b>4.6</b>	<b>7.7</b>
<b>Funding liabilities</b>					
Customer deposits	58.2%	57.8%	57.8%		
Short-term funding less than 1 year residual maturity	15.6%	15.9%	14.9%		
Securities sold under repurchase agreements	4.9%	5.1%	5.9%		
Term funding:					
less than 1 year residual maturity	4.2%	5.0%	5.0%		
greater than 1 year residual maturity	17.1%	16.2%	16.4%		
<b>Total funding liabilities</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>		

<sup>(1)</sup> March 2015 results have been prepared in accordance with AASB 9; prior periods have not been restated. Further information can be found in Note 1 'Principal Accounting Policies' on page 78.

<sup>(2)</sup> Comprises life policy liabilities and external unitholders' liability.

## 8. Number of Ordinary Shares

	Half Year to		
	Mar 15 No. '000	Sep 14 No. '000	Mar 14 No. '000
<b>Ordinary shares, fully paid</b>			
Balance at beginning of period	2,365,791	2,353,772	2,348,903
Shares issued:			
Dividend reinvestment plan	25,539	10,954	9,017
DRP underwritten allotments	24,603	-	-
Bonus share plan	1,146	853	821
Employee share plans	3,314	201	2,974
Performance options and performance rights	717	11	1,054
Paying up of partly paid shares	2	-	20
On market purchase of shares for dividend reinvestment plan neutralisation	-	-	(9,017)
	2,421,112	2,365,791	2,353,772
<b>Ordinary shares, partly paid to 25 cents</b>			
Balance at beginning of period	69	69	89
Paying up of partly paid shares	(2)	-	(20)
	67	69	69
<b>Total number of ordinary shares on issue at end of period (including treasury shares)</b>	2,421,179	2,365,860	2,353,841
Less: Treasury shares	(58,231)	(55,689)	(57,762)
<b>Total number of ordinary shares on issue at end of period (excluding treasury shares)</b>	2,362,948	2,310,171	2,296,079

## 9. Exchange Rates

One Australian dollar equals	Income Statement - average			Balance Sheet - spot		
	Half Year to			As at		
	Mar 15	Sep 14	Mar 14	Mar 15	Sep 14	Mar 14
British Pounds	0.5298	0.5541	0.5573	0.5167	0.5384	0.5545
Euros	0.6915	0.6890	0.6679	0.7077	0.6900	0.6706
United States Dollars	0.8214	0.9291	0.9119	0.7638	0.8760	0.9224
New Zealand Dollars	1.0702	1.0908	1.0965	1.0203	1.1210	1.0661

## 10. ASX Appendix 4D

Cross Reference Index	Page
Results for Announcement to the Market (4D Item 2)	Inside front cover
Dividends (4D item 5)	90
Dividend dates (4D item 5)	Inside front cover
Dividend Reinvestment Plan (4D Item 6)	90
Net tangible assets per ordinary shares (4D item 3)	122
Details of entities over which control has been gained or lost (4D item 4)	n/a
The Group has not gained or lost control over any material entities during the half year ended 31 March 2015	
Details of associates and joint venture entities (4D item 7)	n/a
The Group held no material investments in associates or joint venture entities as at 31 March 2015	

## 11. Divisional Performance Summary Excluding Foreign Currency Movements

Half year ended 31 March 2015 at 31 March 2014 FX rate	Australian Banking <sup>(1)</sup> \$m	NZ Banking \$m	NAB Wealth <sup>(2)</sup> \$m	UK Banking \$m	Corporate Functions & Other <sup>(3)</sup> \$m	Distributions & Eliminations \$m	Group Cash Earnings \$m
Net interest income	5,304	733	-	692	300	-	7,029
Other operating income	1,393	210	757	168	95	(27)	2,596
IoRE	-	-	24	-	-	-	24
Net operating income	6,697	943	781	860	395	(27)	9,649
Operating expenses	(2,717)	(371)	(470)	(606)	(252)	27	(4,389)
Underlying profit/(loss)	3,980	572	311	254	143	-	5,260
Charge to provide for doubtful debts	(367)	(42)	-	(42)	(1)	-	(452)
<b>Cash earnings/(deficit) before tax and distributions</b>	3,613	530	311	212	142	-	4,808
Income tax (expense)/benefit	(1,050)	(148)	(88)	(35)	(88)	-	(1,409)
<b>Cash earnings/(deficit) before distributions</b>	2,563	382	223	177	54	-	3,399
Cash earnings - non-controlling interest	-	-	-	-	(15)	-	(15)
Distributions	-	-	-	-	-	(105)	(105)
<b>Cash earnings/(deficit)</b>	2,563	382	223	177	39	(105)	3,279

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

<sup>(2)</sup> Excludes Private Wealth (formerly part of NAB Wealth).

<sup>(3)</sup> Corporate Functions & Other includes Group Funding, SGA, GWB, NAB UK CRE and other supporting units.



Half year ended 31 March 2015 at 30 September 2014 FX rate	Australian Banking <sup>(1)</sup> \$m	NZ Banking \$m	NAB Wealth <sup>(2)</sup> \$m	UK Banking \$m	Corporate Functions & Other <sup>(3)</sup> \$m	Distributions & Eliminations \$m	Group Cash Earnings \$m
Net interest income	5,304	737	-	696	297	-	7,034
Other operating income	1,392	211	756	169	95	(27)	2,596
IoRE	-	-	24	-	-	-	24
Net operating income	6,696	948	780	865	392	(27)	9,654
Operating expenses	(2,715)	(373)	(470)	(609)	(251)	27	(4,391)
Underlying profit/(loss)	3,981	575	310	256	141	-	5,263
Charge to provide for doubtful debts	(367)	(43)	-	(42)	-	-	(452)
<b>Cash earnings/(deficit) before tax and distributions</b>	3,614	532	310	214	141	-	4,811
Income tax (expense)/benefit	(1,050)	(149)	(88)	(35)	(87)	-	(1,409)
<b>Cash earnings/(deficit) before distributions</b>	2,564	383	222	179	54	-	3,402
Cash earnings - non-controlling interest	-	-	-	-	(15)	-	(15)
Distributions	-	-	-	-	-	(105)	(105)
<b>Cash earnings/(deficit)</b>	2,564	383	222	179	39	(105)	3,282

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

<sup>(2)</sup> Excludes Private Wealth (formerly part of NAB Wealth).

<sup>(3)</sup> Corporate Functions & Other includes Group Funding, SGA, GWB, NAB UK CRE and other supporting units.



Terms	Description
12-months expected credit losses (ECL)	The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
AASB	Australian Accounting Standards Board.
ABS CDO	Asset-backed securities collateralised debt obligation.
AML	Anti-Money Laundering.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to Authorised Deposit-taking Institutions.
ASX	Australian Securities Exchange Limited.
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, NZ Banking and NAB Wealth - Wholesale operations comprising Global Capital Markets and Treasury, Specialised Finance and Financial Institutions business within Australian Banking, and - SGA operations, NAB UK CRE operations, GWB 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 (annualised) divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares.
Clydesdale Bank	Clydesdale Bank plc.
Common Equity Tier 1 (CET1) capital	Common Equity Tier 1 (CET1) capital is recognised as the highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of common shares; retained earnings; undistributed current year earnings; as well as other elements as defined under APS111 - Capital Adequacy: Measurement of Capital.
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 assets	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 other debt instruments at amortised cost (classified in comparative periods as investments held to maturity).
Core Funding Ratio (CFR)	The Core Funding Ratio (CFR) is the total retail funding plus wholesale funding maturing over one year as a percentage of total loans and advances included in BNZ's most recent disclosure statement. The CFR is a minimum quantitative ratio for liquidity risk imposed on a number of locally-incorporated banks by RBNZ, including BNZ.
Credit-impaired financial asset	A financial asset that is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.
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).
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".
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.
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, temporary, 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.
FSCS	United Kingdom Financial Services Compensation Scheme.
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	Australian Goods and Services Tax (GST) is a value added tax of 10% on most goods and services sales.
Group	NAB and its controlled entities.
Great Western Bank (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.
Life insurance economic assumption variation	The net impact on statutory profit of the change in value of life insurance policy liabilities (net of reinsurance) and investments relating to life insurance business due to changes in economic assumptions (inflation and the risk free discount rate).
Lifetime expected credit losses (ECL)	The expected credit losses that result from all possible default events over the expected life of a financial instrument.
Liquidity Coverage Ratio (LCR)	LCR is a new measure announced as part of the Basel III liquidity reforms that came into force on 1 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, debt instruments at fair value through other comprehensive income and other debt instruments at amortised cost (classified in comparative periods as investments - available for sale and investments - held to maturity respectively).
NAB	National Australia Bank Limited ABN 12 004 044 937.
NAB 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 to NAB. 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.
Net Promoter Score	The Net Promoter Score is calculated as the difference between the proportion of customers who are deemed to be 'promoters' and the proportion of customers deemed 'detractors' following customer surveys.
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.
RBNZ	Reserve Bank of New Zealand.
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 it's 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 Common Equity Tier 1 (CET1) capital and instruments issued by the Group that meet the criteria for inclusion as Addition Tier 1 capital set out in APS111 - Capital Adequacy: Measurement of Capital.
Tier 1 capital ratio	Tier 1 Capital as defined by APRA divided by risk-weighted assets.
Total capital ratio	Total capital ratio is the sum of Tier 1 capital and Tier 2 capital, as defined by APRA, divided by risk-weighted assets.
Treasury shares	Shares in the NAB held 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'.

