ANNUAL FINANCIAL REPORT 2018

National Australia Bank

Steve Cameron
“There have been some tough situations during drought years but NAB has been there every time.”

North West Ag Services
NAB customer

Our vision is to be Australia’s leading bank, trusted by customers for exceptional service.

National Australia Bank Limited ABN 12 004 044 937

National Australia Bank Limited
ABN 12 004 044 937

This 2018 Annual Financial Report (Report) is lodged with the Australian Securities and Investments Commission and ASX Limited. National Australia Bank Limited (NAB) is publicly listed in Australia. The Report contains information prepared on the basis of the *Banking Act 1959* (Cth), *Corporations Act 2001* (Cth), Accounting Standards and interpretations issued by the Australian Accounting Standards Board and International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board. NAB also produces a non-statutory Annual Review which can be viewed online at www.nab.com.au/annualreports.

To view the Report online, visit www.nab.com.au/annualreports. Alternatively, to arrange for a copy to be sent to you free of charge, call Shareholder Services on 1300 367 647 from within Australia, or +61 3 9415 4299 from outside Australia.

All figures in the Report are in Australian dollars unless otherwise stated.

ANNUAL FINANCIAL REPORT 2018

OPERATING AND FINANCIAL REVIEW

The directors of National Australia Bank Limited (NAB) present their report, together with the financial statements of the Group, being NAB and its controlled entities, for the year ended 30 September 2018.

Certain definitions

The Group's financial year ends on 30 September. The financial year ended 30 September 2018 is referred to as 2018 and other financial years are referred to in a corresponding manner. The abbreviations $m and $bn represent millions and thousands of millions (i.e. billions) of Australian dollars respectively.

Key terms used in this report are contained in the *Glossary*.

Forward looking statements

This report contains statements that are, or may be deemed to be, forward looking statements. These forward looking statements may be identified by the use of forward looking terminology, including the terms "believe", "estimate", "plan", "project", "anticipate", "expect", "target", "intend", "likely", "may", "will", "could" or "should" or, in each case, their negative or other variations or other similar expressions, or by discussions of strategy, plans, objectives, targets, goals, future events or intentions. Indications of, and guidance on, future earnings and financial position and performance are also forward looking statements. Users of this report are cautioned not to place undue reliance on such forward looking statements.

Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements.

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

Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained on page 14 under "Disclosure on Risk Factors".

Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, all amounts have been rounded to the nearest million dollars, except where indicated. Any discrepancies between total and sums of components in tables contained in this report are due to rounding.

Principal activities

The principal activities of the Group during the year were banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management services, funds management and custodian, trustee and nominee services.

Significant changes in the state of affairs

A number of changes to the composition of the Executive Leadership Team have occurred or been announced during 2018, namely:

- On 28 August 2018, Ms Rachel Slade was appointed Acting Group Executive Customer Products and Services following the resignation of Mr Antony Cahill.
- In September 2018, NAB announced changes to the Executive Leadership Team, effective from 1 October 2018. The changes were:
  - Mr Shaun Dooley joined the Executive Leadership Team as Chief Risk Officer.
  - Mr David Gall, formerly the Chief Risk Officer, was appointed Chief Customer Officer, Corporate and Institutional Banking.
  - Mr Mike Baird, formerly the Chief Customer Officer, Corporate and Institutional Banking, was appointed Chief Customer Officer, Consumer Banking.
  - Customer Products and Services became Customer Experience - a division focussed on building advocacy and loyalty through the design and delivery of a leading banking experience. It includes Customer

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Experience, Marketing, Digital, Products, NAB Labs and NAB Ventures.

- Ms Rachel Slade was appointed to the newly created role of Chief Customer Experience Officer (replacing the Chief Operating Officer role previously held by Mr Antony Cahill).
- Mr Andrew Hagger is no longer a member of Executive Leadership Team and ceased employment with the Group on 14 November 2018.

There were no other significant changes in the state of affairs of the Group that occurred during the financial year under review that are not otherwise disclosed in this report.

The Group's Business

The Group is a financial services organisation with approximately 33,000 employees, operating through a network of more than 900 locations, with over 584,000 shareholders and serving approximately nine million customers.

The majority of the Group's financial services businesses operate in Australia and New Zealand, with branches located in Asia, the United Kingdom (UK) and the United States (US). The Group's purpose is to back the bold who move Australia forward.

In the September 2018 full year, the Group operated the following divisions:

- *Business and Private Banking* focusses on serving the needs of three of NAB's priority customer segments – small businesses, medium businesses and investors. Customers are served through an integrated banking model locally led by managing partners through business banking centres and through the small business customer hubs. This includes specialists in Health, Agribusiness, Government, Education, Community and Franchising (GECF), Professional Services and Commercial Real Estate. The division also serves high net worth customers through the Private Bank and JBWere.
- *Consumer Banking and Wealth* comprises the NAB and UBank consumer banking divisions and the Wealth divisions of Advice, Asset Management and Superannuation. The division provides customers with access to independent advisers, including mortgage brokers and a financial planning network of self-employed, aligned and salaried advisers in Australia.
- *Corporate and Institutional Banking* provides a range of lending and transactional products and services related to financial and debt capital markets, specialised capital, custody and alternative investments. The division serves its customers in Australia and globally, including branches in the US, UK and Asia, with specialised industry relationships and product teams.
- *New Zealand Banking* comprises the Consumer Banking, Wealth, Agribusiness, Corporate and Insurance franchises and Markets Sales operations in New Zealand, operating under the 'Bank of New Zealand' brand. It excludes Bank of New Zealand's Markets Trading operations.

Strategic Highlights

Focus, Vision and Objectives

The Group's strategic focus supports its recently refreshed vision to be Australia's leading bank, trusted by customers for exceptional service. Achieving this vision is underpinned by four key long term objectives:

1. Net Promoter Score [1] [2] (NPS) positive and number 1 of major Australian banks in priority segments.
2. Cost to income ratio towards 35%.
3. Number 1 ROE of major Australian banks.
4. Top quartile employee engagement.

Critical to the Group's ability to achieve its vision and objectives is the maintenance of strong foundations – Balance Sheet (including capital, funding and liquidity), Risk (including credit and operational risk) and Technology.

Accelerating our Strategy

On 2 November 2017, the Group announced an acceleration of its strategy to achieve its vision and objectives, reflecting the environment of rapid and constant change.

The acceleration of the Group's strategy involves a targeted $1.5 billion increase in investment over the three years to September 2020, taking total investment spend to approximately $4.5 billion over that period. For the September 2018 full year, investment spend was $1,519 million. The focus of this increased investment over three years is on the four key areas outlined below.

Best Business Bank

The Group continues to invest in transforming its leading Australian Small and Medium Enterprise (SME) franchise making it simpler and easier for customers. Good progress was made over the September 2018 full year including:

- Improved banker capacity to understand and support business and personal needs of the Group's more complex customers, with revenue per banker increasing 10%.
- Metropolitan-based small business customers have been migrated to a new customer service hub, with extended operating hours open 7 days a week.
- Improved digital and decisioning with 80% of simple business transaction account customers [3] now set up via a new digital platform in less than 30 minutes, compared with 8 days at September 2017. In addition, the proportion of new small business lending accounts generated via the Quickbiz digital platform, with

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

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

(3) Simple business transaction account customers refers to sole traders and private business customers.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

application and decisioning in under 10 minutes, increased to 35% from 20%.

Simpler and Faster

The Group is focussed on delivering exceptional customer service, increased productivity and reduced operational and regulatory risks. Key progress over the September 2018 full year includes:

- Number of products reduced from approximately 600 to 495, and products capable of digital origination increased from 10% to 19%.
- Time required to open Everyday consumer accounts reduced from up to 48 hours to less than 7 minutes, and term deposit rollovers (both in branch and online) have been simplified to one click, reducing processing time by 70%.
- Over-the-counter transactions in branches declined 15% following the completed rollout of 805 smart ATMs.
- Organisational structure flattened to 7 layers between the CEO and customer for 94% of employees (66% at September 2017).

New and Emerging Growth Opportunities

Capturing new and emerging growth opportunities by leveraging the Group's capabilities and positions of strength is a key focus. Progress over the September 2018 full year includes:

- Given strong forecast population growth in Greater Western Sydney and Greater Melbourne [(1)], the Group has added or relocated 40 bankers to service these urban growth corridors, combined with 7 new or refreshed points of presence.
- Leveraging the Group's top 15 global position in infrastructure financing [(2)] with 63 global infrastructure deals completed worth approximately $48 billion of total project debt.
- UBank, the Group's digital bank, increased customer numbers by 17%, and in the September 2018 half year grew home lending at 4 times system rates.

Great People, Talent and Culture

The Group is committed to attracting, developing and inspiring talent to drive a culture that delivers high performance. Key developments over the September 2018 full year include:

- More than 350 senior managers participated in talent programs to identify current capability and future potential to fast track progress into more senior roles.
- Providing support and career transition services for people leaving NAB via 'The Bridge', with 84% take up. Within its first six months of operation, 40% of Bridge users have successfully transitioned to their desired pathways including new positions, vocational training, self-employment or retirement.
- 2019 graduate applications increased by 27% compared to the prior year, and the Group's graduate program has been transformed with more locations now covered.

As part of the acceleration of its strategy, the Group expects to deliver cumulative cost savings, currently targeted at greater than $1 billion by 30 September 2020, as it significantly simplifies and automates processes, reduces procurement and third party costs, and gets closer to its customers with a flatter organisational structure. In the September 2018 full year, cost savings of approximately $320 million were achieved.

The Group is reshaping its workforce to enable it to deliver for customers. Over the three years to 30 September 2020, the Group is targeting the creation of up to 2,000 new roles and a reduction of 6,000 existing roles as it further automates and simplifies its business. It is expected that this will result in a net reduction in employees of approximately 4,000 by 30 September 2020. Throughout this process, the Group will treat its people with care and respect and equip them for the future through the services of The Bridge. During the September 2018 full year, a reduction of 1,897 roles occurred while an additional 195 new roles were added bringing new skills and capabilities to support the Group's growth agenda.

Reflecting the accelerated investment impact, the Group outlined an expectation for September 2018 full year expense growth of 5-8%, excluding restructuring-related costs and any large one-off expenses. In the September 2018 full year, expense growth was 6.4%, excluding restructuring-related costs of $755 million booked in the March 2018 half year and customer-related remediation. The Group continues to target expense growth over the September 2019 and September 2020 full years to remain broadly flat, excluding large notable expenses [(3)].

Reshaping of Wealth Management

On 3 May 2018, the Group announced its intention to reshape its Wealth Management offering, consistent with its plan to become simpler and faster. A detailed review, conducted over nine months, determined the Group could best serve the needs of its customers and deliver long-term value for shareholders by retaining and investing in a more focussed Wealth Management offering. This involves retaining JBWere, part of the Group's leading Business and Private Banking franchise, to help high net worth customers manage their personal wealth alongside their business interests, combined with nabtrade, the Group's fast growing online investing platform, supporting self-directed customers.

The Group intends to exit its Advice, Superannuation & Investment Platforms and Asset Management businesses, currently operating under MLC and other brands ('MLC'). Separate ownership will allow this business to determine its

(1) *Forecast growth of 0.9 million people in 5 years in Greater Western Sydney and Greater Melbourne. Source: Melbourne: "Victoria in Future 2016", Dept of Environment, Land, Water and Planning. Sydney: "2016 New South Wales State and Local Government Area Population Projections", NSW Govt - Planning & Environment.*
(2) *IJGlobal League tables (2018).*
(3) *Notable expenses includes significant customer-related remediation.*

OPERATING AND FINANCIAL REVIEW (CONTINUED)

own strategy and investment priorities to better deliver for customers and enhance its competitive position. The Group is targeting separation by the end of the 2019 calendar year via public markets options including demerger and Initial Public Offering (IPO), while maintaining flexibility to consider trade sale options. It is expected there will be ongoing arrangements between NAB and MLC to offer NAB customers continued access to advice and products to meet their wealth management needs.

Since announcing the reshaping of its Wealth business in May 2018, the Group has made good progress in the work required to separate MLC, including the appointment of Geoff Lloyd as CEO of MLC.

Performance against key long-term objectives

The Group uses NPS[(1)] system to access real-time, targeted feedback so it can understand and improve the customer experience. For the 12 months ended 30 September 2018, priority segment NPS[(1)(2)] declined from -12 to -16 partly reflecting an overall industry decline relating to the Royal Commission, and is now second of the major Australian banks.

The Group's long-term objective remains for priority segment NPS to be positive and number one of major Australian banks, which it expects to achieve through its focus on building a better bank for customers. Key initiatives supporting this focus over the September 2018 full year include:
- Establishment of a centre for customer remediation to resolve issues more quickly for customers.
- Supporting rural and regional customers with a drought assistance package, including no branch closures in drought declared areas.
- From 1 October 2018, 97% of staff will be rewarded on a balance of outcomes and behaviours under the Group Variable Reward Plan and not specialist sales incentives, up from 85% in the September 2018 full year.

Over the September 2018 full year, the Group's Cost to Income (CTI) ratio increased by 730 basis points to 50.0%. Excluding restructuring-related costs and customer-related remediation, the CTI increased 190 basis points to 44.6%, mainly reflecting higher investment in customer and technology capabilities associated with the acceleration of the Group's strategy.

Over the September 2018 full year, the Group's return on equity (ROE) declined 230 basis points to 11.7%. Excluding restructuring-related costs and customer-related remediation, ROE declined 70 basis points to 13.3%, again mainly reflecting higher investment in customer and technology capabilities associated with the acceleration of the Group's strategy.

The Group is targeting top quartile employee engagement. The Group's annual employee engagement result for September 2018 declined over the year from 59% to 54% but recovered from the April 2018 'Pulse' survey[(3)] result of 48%. At 54%, the September 2018 score is below the top quartile benchmark of 68%[(4)] in part reflecting impacts of the Royal Commission on the Group's external reputation and the Group's restructuring announcement in November 2017.

Maintaining strong foundations

The Group remained well capitalised during the year to September 2018, and expects to achieve Australian Prudential Regulation Authority's (APRA) 'unquestionably strong' capital benchmark of 10.5% in an orderly manner by 1 January 2020. The Group's Common Equity Tier 1 (CET1) ratio as at 30 September 2018 was 10.20%.

The Group has maintained strong liquidity through the September 2018 full year. The Net Stable Funding Ratio (NSFR) was 113% and the quarterly average Liquidity Coverage Ratio (LCR) was 129%, both above the APRA regulatory requirement of 100%.

Portfolio concentrations continue to be managed with reference to established Group risk appetite settings, and overall credit risk in the Group's portfolio remains sound. Credit impairment charges for the September 2018 full year declined 4% over the year and represent 0.13% of gross loans and acceptances. The ratio of loans which are more than 90 days in arrears and impaired as a percentage of gross loans and acceptances remained broadly stable over the year to 30 September 2018 at 0.71%.

Provisions for credit impairment remain prudent, with total provisions increasing 7% over the year to $3,729 million, and the ratio of collective provisions to credit risk weighted assets increasing from 0.86% to 0.92%.

The Group continues to strengthen its technology environment to be fast, agile, efficient, resilient and relevant, supported by deep technical expertise. Technology investment spend has increased as part of the acceleration of the Group's strategy to deliver these objectives in a timely manner. Over the September 2018 full year:
- A new technology leadership team has been recruited, bringing strong technology experience with 10 new executives hired from major global financial services and technology firms.
- Insourced 542 roles, mainly technology and operations related.
- Established the NAB Cloud Guild to build cloud computing skills for NAB employees. Over 3,000 employees have completed the program and NAB has

(1) Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.
(2) Priority Segments NPS is a simple average of the NPS scores of four priority segments: Home Owners, Investors, Small Business ($0.1 million - <$5 million) and Medium Business ($5 million - <$50 million). The Priority Segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research.
(3) Pulse survey sent to a randomly selected subsection of the organisation, April 2018.
(4) Based on the top quartile of Australian and New Zealand companies, source: AON Hewitt 2018.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

more cloud certified employees than any other organisation in Australia and New Zealand.
- IT applications have reduced by 120 or 5%, and 70 or 3% of IT applications have been migrated to the cloud. The Group is targeting a 15-20% reduction in IT applications and 35% migration to the cloud.

Financial performance summary

The following financial discussion and analysis is based on statutory information unless otherwise stated. The statutory information
is presented in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards and is audited by the auditors in accordance with Australian Auditing Standards.

Non-IFRS key financial performance measures used by the Group

Certain financial measures detailed in the Report of the Directors are not accounting measures within the scope of International Financial Reporting Standards (IFRS). Management review these financial metrics in order to measure the Group's overall financial performance and position and believe the presentation of these industry standard financial measures provides useful information to analysts and investors regarding the results of the Group's operations and allows ready comparison with other industry participants. These financial performance measures include:
- cash earnings
- statutory ROE
- cash ROE
- net interest margin
- average equity (adjusted)
- average interest earning assets
- average assets.

The Group regularly reviews the non-IFRS measures included in its Report of the Directors to ensure that only relevant financial measures are incorporated. Certain other financial performance measures detailed in the Report of the Directors are derived from IFRS measures and are similarly used by analysts and investors to assess the Group's performance. These measures are defined in the *Glossary*.

Any non-IFRS measures included in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. The non-IFRS financial measures referred to above have not been presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards unless they are included in the financial statements.

Further information in relation to these financial measures is set out below and in the *Glossary*.

Information about cash earnings

Cash earnings is a non-IFRS key financial performance measure used by the Group, the investment community and NAB's Australian peers with similar business portfolios. The Group also uses cash earnings for its internal management reporting as it better reflects what it considers to be the underlying performance of the Group.

Cash earnings is calculated by excluding discontinued operations, fair value and hedge ineffectiveness and other non-cash earning items which are included within the statutory net profit attributable to owners of NAB.

Cash earnings does not purport to represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a cash flow statement. A reconciliation between statutory net profit and cash earnings is included in *Note 2 Segment information* of the financial statements.

Information about net interest margin

Net interest margin (NIM) is a non-IFRS key financial performance measure that is calculated as net interest income (derived on a cash earnings basis, which in this financial report is not materially different from statutory net interest income) expressed as a percentage of average interest earning assets.

Information about average balances

Average balances, including average equity (adjusted), total average assets and average interest earning assets are based on daily statutory balances derived from internally generated trial balances from the Group's general ledger and are used for internal reporting purposes including reporting to the Board on a monthly basis.

The methodology used to obtain average balances is to take the average of the opening balance and the balance at the end of each day in the period. This methodology produces numbers that more accurately reflect seasonality, timing of accruals (such as dividends) and restructures (including discontinued operations), which would otherwise not be reflected in a simple average.

Refer to the following pages for a five-year summary of the Group's average equity (adjusted), total average assets and average interest earning assets.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

5 Year Financial Performance Summary

	Group [1]				
	2018 $m	2017 $m	2016 $m	2015 $m	2014[2] $m
Net interest income	**13,505**	13,182	12,930	12,462	13,415
Other income	**5,596**	4,842	5,192	5,975	5,441
Operating expenses	**(9,910)**	(8,539)	(8,331)	(8,189)	(10,227)
Credit impairment charge	**(791)**	(824)	(813)	(733)	(847)
Profit before income tax expense	**8,400**	8,661	8,978	9,515	7,782
Income tax expense	**(2,455)**	(2,480)	(2,553)	(2,709)	(2,598)
Net profit for the year from continuing operations	**5,945**	6,181	6,425	6,806	5,184
Net profit / (loss) after tax for the year from discontinued operations	**(388)**	(893)	(6,068)	(414)	114
Net profit for the year	**5,557**	5,288	357	6,392	5,298
Profit attributable to non-controlling interests	**3**	3	5	54	3
Net profit attributable to owners of NAB	**5,554**	5,285	352	6,338	5,295

(1) *Information is presented on a continuing operations basis. September 2015 was restated for the demerger of CYBG and the sale of 80% of Wealth's life insurance business to Nippon Life in September 2016. September 2014 was restated for the sale of Great Western Bancorp Inc. but has not been restated for the demerger of CYBG or the sale of 80% of the Wealth's insurance business to Nippon Life. The Group's consolidated financial statements for the financial years ended 30 September 2014 and 2015 can be found in the corresponding reports published by the Group for the respective periods.*

(2) *AASB 9 Financial Instruments was adopted from 1 October 2014. 2014 period was not restated.*

OPERATING AND FINANCIAL REVIEW (CONTINUED)

	Year to				
Group performance indicators	**Sep 18**	**Sep 17**	**Sep 16**	**Sep 15**	**Sep 14**
Key Indicators					
Statutory earnings per share (cents) - basic [(1)]	**201.3**	194.7	8.8	252.7	219.0
Statutory earnings per share (cents) - diluted [(1)]	**194.0**	189.1	15.5	245.4	215.4
Statutory return on equity	**11.2%**	10.9%	0.5%	15.2%	12.1%
Cash return on equity	**11.7%**	14.0%	14.3%	14.8%	11.6%
Profitability, performance and efficiency measures					
Dividend per share (cents)	**198**	198	198	198	198
Net interest margin [(2)]	**1.85%**	1.85%	1.88%	1.90%	1.91%
Capital					
Common Equity Tier 1 ratio	**10.20%**	10.06%	9.77%	10.24%	8.63%
Tier 1 ratio	**12.38%**	12.41%	12.19%	12.44%	10.81%
Total capital ratio	**14.12%**	14.58%	14.14%	14.15%	12.16%
Risk-weighted assets ($bn) (spot)	**389.7**	382.1	388.4	399.8	367.7
Volumes ($bn)					
Gross loans and acceptances (spot) [(2)(3)]	**585.6**	565.1	545.8	521.9	537.6
Average interest earning assets [(2)]	**726.7**	711.3	689.5	658.1	703.0
Total average assets [(2)]	**807.0**	798.8	855.8	864.6	853.4
Customer deposits (spot) [(2)]	**409.0**	407.6	390.5	362.0	383.0
Average equity (adjusted) - Statutory	**48.7**	47.5	44.3	40.5	42.0
Average equity (adjusted) - Cash	**48.7**	47.5	45.5	42.2	43.6
Asset quality					
90+ days past due and gross impaired assets to gross loans and acceptances [(2)]	**0.71%**	0.70%	0.85%	0.63%	1.19%
Other					
Funds under management and administration (FUM/A) (spot) ($bn) [(4)]	**144.7**	133.8	125.0	n/a	n/a
Assets under management (AUM) (spot) ($bn) [(4)]	**206.7**	195.3	184.9	n/a	n/a
Full Time Equivalent Employees (FTE) (spot) [(2)]	**33,283**	33,422	34,263	33,894	41,420
Full Time Equivalent Employees (FTE) (average) [(2)]	**33,747**	33,746	34,567	34,148	41,153

(1) *For the year ended 30 September 2015, Earnings per share was restated for September 2014 by adjusting the weighted average number of ordinary shares in order to incorporate the bonus element in the 2015 rights issue, as per AASB 133 Earnings per Share.*

(2) *Information is presented on a continuing operations basis. September 2015 was restated for the demerger of CYBG and the sale of 80% of Wealth's life insurance business to Nippon Life in September 2016. September 2014 was restated for the sale of Great Western Bancorp Inc. but has not been restated for the demerger of CYBG or the sale of 80% of the Wealth's insurance business to Nippon Life. The Group's consolidated financial statements for the financial years ended 30 September 2014 and 2015 can be found in the corresponding reports published by the Group for the respective periods.*

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

(4) *For the year ended 30 September 2017, there has been a change to the presentation of FUM/A and AUM to include two separate disclosures that represent all managed funds and assets from which the Group derives revenue. Certain items will be represented in both FUM/A and AUM and therefore the two should not be summed. Comparative period information has been restated for September 2016. 2015 and 2014 periods have not been restated.*

OPERATING AND FINANCIAL REVIEW (CONTINUED)

September 2018 v September 2017

Net profit attributable to owners of NAB (statutory net profit) increased by $269 million or 5.1%. Excluding the impact of discontinued operations, net profit attributable to owners of NAB (statutory net profit) decreased by $236 million or 3.8%. Discontinued operations reflects losses relating to provisions for conduct costs pursuant to claims under the Conduct Indemnity Deed with CYBG, additional costs associated with the life insurance business sale, and $53 million after tax relating to customer-related remediation.

Net interest income increased by $323 million or 2.5% including a decrease of $246 million that was offset by movements in economic hedges in other operating income. The underlying increase of $569 million or 4.3% was driven by growth in both housing and business lending volumes, combined with the full year impact of prior year repricing activities, lower deposit costs and reduced long-term wholesale funding costs. These movements were partially offset by the impact of competitive pressures and product mix impacts affecting housing lending margins combined with higher short term wholesale funding costs and the full year impact of the bank levy introduced in the final quarter of the 2017 year.

Other income increased by $754 million or 15.6%, including an increase of $246 million that was offset by movements in economic hedges in net interest income, and customer-related remediation of $249 million. The underlying increase of $757 million or 15.6% was mainly driven by gains in fair value hedging largely due to reduced volatility, higher sales of customer risk management products and increased Corporate Finance fees. This was partially offset by lower trading income in Markets, reduced NAB risk management income in Treasury and lower income due to asset sales in the prior period.

Total operating expenses increased by $1,371 million or 16.1%. Excluding restructuring-related costs of $755 million and customer-related remediation of $111 million, total operating expenses increased $505 million or 5.9% which was driven by accelerated investment in technology, higher depreciation and amortisation charges, uplifting the compliance and control environment, the impact of annual salary increases, and increased marketing spend. These were partially offset by productivity benefits including workforce restructuring and insourcing associated with simplifying the Group's operations and reduction in third party spend.

Credit impairment charge decreased by $33 million or 4.0% mainly driven by lower specific credit impairment charges, partially offset by collective provision charges for mortgage model enhancements to incorporate a more forward looking approach, and a lower level of collective provision releases.

Income tax expense decreased by $25 million or 1.0% largely due to a decrease in profit before tax.

Review of Group and Divisional Results

	Group	
	2018[(1)] $m	2017[(1)] $m
Business and Private Banking	**2,911**	2,841
Consumer Banking and Wealth	**1,539**	1,633
Corporate and Institutional Banking	**1,541**	1,535
New Zealand Banking	**922**	882
Corporate Functions and Other	**(1,211)**	(249)
Cash earnings [(2)]	**5,702**	6,642
Non-cash earnings items	**240**	(464)
Net (loss) from discontinued operations	**(388)**	(893)
Net profit attributable to owners of NAB	**5,554**	5,285

(1) *Information is presented on a continuing operations basis.*
(2) *The 2018 cash earnings include restructuring-related costs of $530 million after tax and customer-related remediation of $261 million after tax which is reflected in Corporate Functions and Other.*

September 2018 v September 2017

Group

Cash earnings decreased $940 million or 14.2% impacted by restructuring-related costs of $530 million and customer-related remediation of $261 million. Excluding the restructuring-related costs and customer-related remediation, cash earnings decreased $149 million or 2.2% mainly driven by accelerated investment in technology capabilities, associated depreciation and amortisation charges, uplifting the compliance and control environment and the full year impact of the bank levy, combined with lower revenue in Markets and Treasury. These were partially offset by increased net interest income largely from growth in the lending portfolio.

Business and Private Banking

Cash earnings increased $70 million or 2.5% driven by balance sheet growth and full year repricing benefits in the lending portfolio, partially offset by increased operating expenses due to the acceleration in investment spend announced in 2017 and higher credit impairment charges.

Consumer Banking and Wealth

Cash earnings decreased $94 million or 5.8% driven by increased operating expenses due to the acceleration in investment spend announced in 2017, partially offset by balance sheet growth and repricing benefits in the housing lending portfolio.

Corporate and Institutional Banking

Cash earnings increased $6 million or 0.4% driven by credit quality improvement, partially offset by increased operating expenses due to the acceleration in investment spend announced in 2017. Revenue is broadly flat reflecting lower trading income, the sale of the Private Wealth business in Asia and the full year impact of the bank levy, partially offset by increased deal activity.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

New Zealand Banking

Cash earnings increased $40 million or 4.5% driven by higher revenue, partially offset by higher operating expenses as a result of accelerated investment in the business.

Corporate Functions and Other

The cash deficit increased $962 million mainly due to restructuring-related costs and customer-related remediation, lower income from funding and risk management activities, higher legal and compliance costs, including costs associated with the Royal Commission.

Group Balance Sheet Review

	Group	
	2018	**2017**
	$m	**$m**
Assets		
Cash and liquid assets	**50,188**	43,826
Due from other banks	**30,568**	37,066
Trading instruments	**78,228**	80,091
Debt instruments	**42,056**	42,131
Other financial assets	**10,041**	16,058
Loans and advances	**567,981**	540,125
Due from customers on acceptances	**3,816**	6,786
All other assets	**23,632**	22,242
Total assets	**806,510**	788,325
Liabilities		
Due to other banks	**38,192**	36,683
Trading instruments	**22,422**	27,187
Other financial liabilities	**30,437**	29,631
Deposits and other borrowings	**503,145**	500,604
Bonds, notes and subordinated debt	**140,222**	124,871
Other debt issues	**6,158**	6,187
All other liabilities	**13,222**	11,845
Total liabilities	**753,798**	737,008
Total equity	**52,712**	51,317
Total liabilities and equity	**806,510**	788,325

September 2018 v September 2017

Total assets increased by $18,185 million or 2.3%. The increase was mainly due to growth in loans and advances (net of other financial assets at fair value and due from customers on acceptances) of $18,869 million or 3.4%. This reflects growth in non-housing lending driven by the Group's focus on priority business segments combined with continued momentum in housing lending. The increase was partially offset by a net decrease in cash and liquid assets, due from other banks and trading instruments of $1,999 million or 1.2%, which reflects change in the Group's asset mix given a changing market environment, as well as foreign exchange rate and interest rate movements during the period.

Total liabilities increased by $16,790 million or 2.3%. The increase was mainly due to growth in bonds, notes and subordinated debt and other financial liabilities of $16,157 million or 10.5% due to growth in long-term funding to support the Group's asset growth and foreign exchange movements. Total equity increased by $1,395 million or 2.7% mainly due to an increase in contributed equity attributable to the Dividend Reinvestment Plan.

Capital Management and Funding Review

Balance Sheet Management Overview

The Group aims to maintain strong capital, funding and liquidity positions, in line with its ongoing commitment to balance sheet strength. This includes:
- Seeking to maintain a well-diversified wholesale funding portfolio which accesses a range of funding and capital options across various markets.
- Continuing to monitor and assess these positions so that changes in market conditions and regulation can be accommodated.

Regulatory Reform

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

'Unquestionably Strong' and Basel III Revisions
- In December 2017, the Basel Committee on Banking Supervision (BCBS) finalised the Basel III capital framework. APRA subsequently commenced consultation on revisions to the domestic capital framework in February 2018 and reaffirmed its intention to strengthen banking system resilience by establishing 'unquestionably strong' capital ratios. APRA expects major Australian banks to achieve CET1 capital ratios of at least 10.5% by 1 January 2020 based on existing risk-weighted asset (RWA) methodologies.
- APRA's consultation on revisions to the capital framework includes consideration of 'benchmarks for capital strength', 'risk sensitivity of the capital framework' and 'transparency, comparability and flexibility of the capital framework'. Consultation will continue in 2019 and APRA is currently proposing an implementation date of 1 January 2021. To calibrate the various aspects of the proposals including the potential application of overlays, APRA is undertaking a quantitative impact study.
- APRA has also proposed a minimum Leverage Ratio requirement of 4% for IRB Authorised Deposit-taking Institutions (ADI) and a revised Leverage Ratio exposure measurement methodology from 1 July 2019. The Group's Leverage Ratio as at 30 September 2018 of 5.4% (under current methodology) is disclosed in further detail within the September 2018 Pillar 3 Report.
- APRA has finalised its prudential requirements for the standardised approach to counterparty credit risk (SA-CCR), which introduces the new Prudential Standard APS 180 *Counterparty Credit Risk*. These requirements will take effect from 1 July 2019.

Increased Loss-absorbing Capacity for ADIs
- On 8 November 2018, APRA released a discussion paper outlining its proposals for increasing the loss-absorbing capacity of ADIs. The proposals are consistent with the Financial System Inquiry recommendation to implement

OPERATING AND FINANCIAL REVIEW (CONTINUED)

a framework sufficient to facilitate the orderly resolution of Australian ADIs and minimise taxpayer support. The paper outlines, for Domestic Systemically Important Banks (D-SIBs), an increase in the Total capital requirement of between 4-5% of risk-weighted assets. It is anticipated that D-SIBs would satisfy this requirement predominantly with the issue of additional Tier 2 capital, which is expected to increase the Group's ongoing cost of funds. APRA's consultation process is expected to be completed during 2019, with adjusted capital requirements to apply by 2023.

Further detail on the regulatory changes impacting the Group are outlined in the September 2018 Pillar 3 Report.

National Income Securities

The distributions on the National Income Securities are currently not able to be franked due to a provision in the tax law which applies specifically to instruments that qualify as Tier 1 capital for prudential purposes. When the National Income Securities no longer qualify as Tier 1 capital from 31 December 2021, it is expected that any subsequent distributions will be franked to the same extent as dividends on NAB's ordinary shares are franked. In August 2018, the *Treasury Laws Amendment (Tax Integrity and Other Measures No. 2) Act 2018* (the Act) was passed, as part of a number of measures to eliminate hybrid mismatch arrangements. NAB does not expect any change to the treatment of distributions paid on National Income Securities or NAB's other ASX-listed hybrid securities from the passing of the Act.

Capital Management

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

The Group's capital ratio operating targets are regularly reviewed in the context of the external economic and regulatory outlook with the objective of maintaining balance sheet strength. The Group expects to achieve APRA's 'unquestionably strong' capital benchmark of 10.5% in an orderly manner by 1 January 2020.

Funding

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

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

Funding Indices

The Group employs a range of metrics to set its risk appetite and measure balance sheet strength. At 30 September 2018 the Group's NSFR was 113%, above the regulatory minimum of 100%. This position was supported by term wholesale funding issuance being executed in excess of term wholesale funding maturities and an increase in the proportion of stable customer deposits over the September 2018 full year.

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

Customer Funding

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

The Monthly Banking Statistics published by APRA show that for the 12 months ended 30 September 2018, NAB's growth (as a proportion of system growth) has been as follows:
- Australian domestic household deposits have grown by 4.8% (0.8x system growth).
- Business deposits (excluding deposits from financial corporations and households) have grown by 2.2% (0.5x system growth).
- Deposits from financial institutions have grown by 3.3%.

Term Wholesale Funding

Global funding conditions have been generally supportive during 2018, with certain periods of increased market volatility. This has led to some widening in term funding issuance spreads. Term funding markets will continue to be influenced by investor sentiment, the outlook for monetary policy and spreads in various derivative markets.

The Group maintains a well-diversified funding profile across issuance type, currency, investor location and tenor, and raised $28.4 billion during the September 2018 full year.

NAB raised $25.1 billion, including $21.6 billion senior unsecured and $3.5 billion of secured funding (comprised of covered bonds and Residential Mortgage Backed Securities (RMBS)). BNZ raised $3.3 billion during the September 2018 full year.

The weighted average maturity of term wholesale funding raised by the Group over 2018 was approximately 5.2 years to the first call date. The weighted average remaining maturity of the Group's term wholesale funding portfolio is 3.4 years.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Short-term Wholesale Funding

The Group maintained consistent access to international and domestic short-term wholesale funding markets during 2018, noting certain periods of increased volatility.

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

Liquid Asset Portfolio

The Group maintains well-diversified and high quality liquid asset portfolios to support regulatory and internal requirements in the various regions in which it operates. The market value of total on balance sheet liquid assets held as at 30 September 2018 was $126 billion excluding contingent liquidity. This represents an increase of $2 billion from 30 September 2017.

Liquid asset holdings include $111 billion of regulatory liquid assets (consisting of both High Quality Liquid Assets (HQLA) and Committed Liquidity Facility (CLF) eligible assets) as at 30 September 2018.

In addition, the Group holds internal RMBS as a source of contingent liquidity and to support the CLF. Unencumbered internal RMBS held at 30 September 2018 was $40 billion (post applicable central bank deduction).

Liquid assets and internal RMBS (net of applicable regulatory deductions) that qualify for inclusion in the Group's LCR were on average $142 billion for the quarter ending 30 September 2018 resulting in an average Group LCR of 129%.

Credit Ratings

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

Dividends

The directors have declared a final dividend of 99 cents per fully paid ordinary share, 100% franked, payable on 14 December 2018. The proposed payment amounts to approximately $2,707 million. The Group periodically adjusts the Dividend Reinvestment Plan (DRP) to reflect the capital position and outlook. The Group will offer a 1.5% discount on the DRP, with no participation limit.

Dividends paid since the end of the previous financial year:
- The final dividend for the year ended 30 September 2017 of 99 cents per fully paid ordinary share, 100% franked, paid on 13 December 2017. The payment amount was $2,659 million.
- The interim dividend for the year ended 30 September 2018 of 99 cents per fully paid ordinary share, 100% franked, paid on 5 July 2018. The payment amount was $2,696 million.

Information on the dividends paid and declared to date is contained in *Note 28 Dividends and distributions* of the financial statements. The franked portion of these dividends carries Australian franking credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%. New Zealand imputation credits have also been attached to the dividend at a rate of NZ$0.15 per share. The extent to which future dividends will be franked, for Australian taxation purposes, will depend on a number of factors, including the proportion of the Group's profits that will be subject to Australian income tax and any future changes to Australia's business tax system.

Review of, and Outlook for, Group Operating Environment

Global Business Environment

Global economic activity in calendar year 2018 is on track to grow at its equal fastest pace since 2011, and above the average growth rate recorded since calendar year 1980. However, over the course of 2018, growth experienced by different countries and regions has shown increasing divergence:
- The US economy has been growing strongly.
- GDP growth in India has strengthened.
- Growth in the Euro-zone and Japan has come off its calendar year 2017 pace.
- China's growth rate has eased.
- Several emerging market (EM) countries, such as Turkey and Argentina, have had large falls in the value of their currency and other indicators of financial conditions have tightened.

Major advanced economy central banks are generally tightening policy:
- The US Federal Reserve has been raising rates, and is reducing the size of its balance sheet.
- The European Central Bank has indicated that it will end its monthly net asset purchases in the December quarter 2018, but policy interest rates are expected to remain on hold through the European summer of 2019.
- The Bank of England and the Bank of Canada have raised their policy rates this year.

EM central banks (excluding China), on average, have also been lifting their policy rates, although, outside Turkey and Argentina, the increases have been generally modest.

Risks around the global outlook include an escalation in US-China tariffs, faster than expected inflation in the US which leads the Federal Reserve to tighten monetary policy more rapidly than expected, and the pressure that this might put on EM financial conditions.

Australian Economy

The Australian economy grew by 3.4% over the year to the June quarter 2018, its strongest growth since calendar year 2012. The annual growth rate reflects:
- An increase in dwelling construction over the year to the June quarter 2018. The construction pipeline remains at a high level.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

- Stronger growth in household consumption, although it remains below average by historical standards.
- Moderate growth in underlying government investment following strong growth the previous year.
- A strengthening in underlying business investment, driven by strong growth in non-mining investment. While mining investment fell over the year to the June quarter, it increased in the final quarter.
- Strong growth in resource export volumes.

In US dollar terms, the RBA commodity price index increased by 11.6% over the year to October 2018, but prices remained within the range seen since early calendar year 2018. However, in Australian dollar terms, the index was at its highest level since June 2012. Commodity prices are an influence on national income which grew by 5.4% over the year to the June quarter 2018, remaining well above the low growth rates experienced over 2012 to 2016. This is reflected in increased corporate profits but household disposable income growth, despite some recent improvement, remains subdued.

With the strong quarterly GDP outcomes in the first half of the year, year-average GDP growth is expected to be 3.2% in calendar year 2018, before slowing to 2.7% in 2019 and 2.5% in 2020. Public sector demand, strong export growth and a recovery in non-mining business investment are expected to support growth, and the drag from falling mining sector investment should wane. Consumption is expected to grow only modestly as wage growth remains weak. While there remains a large pipeline of work to be done, a modest decline in dwelling investment is also likely. Within these national aggregates there continues to be a wide disparity in conditions across industries and geographies.

Agricultural prices and production continues to be very region and commodity specific. While most of New South Wales and parts of Queensland are in drought, the wheat belt of Western Australia is on track for an average to above average season. The NAB Rural Commodities Index (Australian dollar terms) was up 16.9% over the year to October 2018; but this largely reflects high grain prices due to a below average season in eastern Australia.

The labour market has improved but wage growth remains low:
- Employment growth is still above the rate of working-age population growth.
- The unemployment rate has fallen from 5.6% in April 2018 to 5.0% in September 2018. However, underemployment remains elevated.
- Wages pressure remains limited. Growth in the wage price index has improved slightly but, at 2.1% over the year to the June quarter 2018, it is low by historical standards.

Dwelling prices in Australian capital cities are generally subdued or falling:
- The CoreLogic hedonic dwelling price index for the eight capital cities started declining in late calendar year 2017. In October 2018 it was 4.6% below its October 2017 level.
- Over the year to October 2018, Hobart has recorded strong dwelling price growth (9.7%), while gains in Adelaide and Brisbane have been marginal, and prices have fallen in Sydney, Melbourne, Perth and Darwin. Peak-to-trough, Sydney prices have fallen by 8.2% while Melbourne is down 4.9%.

Total system credit growth has eased over the last year:
- Annual housing credit growth was 5.2% in September 2018, down from 6.6% a year ago, with the slowdown mainly driven by weaker investor housing credit growth. Growth in owner-occupier housing credit has also slowed in recent months.
- Annual business credit growth was 4.4% in September 2018, and has shown signs of improvement in recent months, while other personal credit continues to decline.

Underlying consumer price inflation in the September quarter 2018 was slightly below the RBA's 2-3% target band. If the expected growth in the economy is realised, the unemployment rate should ease further. If this were to lead to stronger wage growth, it could give the RBA confidence that inflation will move to within the target band over time, and provide a basis for it to raise rates at some stage in the future.

New Zealand Economy

Over the year to the June quarter 2018, GDP grew by 2.8%. While still close to the average growth rate of the last twenty years, it confirms that growth has eased from the strong levels seen over calendar 2014-2016. Factors supporting growth that have moderated include:
- Population growth, as net inward migration has eased slightly from its historically high level.
- Tourism, with growth in short-term visitor arrivals slowing.
- The merchandise terms-of-trade peaked at the end of calendar year 2017, although it is still close to its historical highs.

A relatively low unemployment rate and other indicators also point to supply constraints on growth. Business confidence also started falling at the end of 2017 and is now at low levels; if sustained this could translate into weaker business investment and employment in the future.

However, support for growth is coming from still very low interest rate settings by the RBNZ and Government fiscal stimulus in the form of infrastructure spending and transfer payments to households. In its September 2018 OCR decision, the RBNZ indicated that it will keep the "...OCR at an expansionary level for a considerable period...".

Annual average GDP growth is expected to be 2.9% for calendar year 2018, gradually slowing to 2.6% by calendar year 2020.

Over the year to the June quarter 2018, consumption and business investment growth was around historical standards, government spending grew strongly (5.7%),

OPERATING AND FINANCIAL REVIEW (CONTINUED)

while net trade made a negative contribution to growth. Over the same period, residential building investment grew modestly, but remained at a robust level as a percentage of GDP. The number of building consents in September 2018 was also elevated despite a decline in Canterbury following its post-earthquake reconstruction.

Commodity export prices declined by 5.6% in world price terms over the twelve months to October 2018, but rose by 1.6% in NZ dollar terms.
- International dairy export prices have fallen since May 2018 but are close to their 10 year average in NZ dollar terms. Fonterra's 2017/18 farmgate milk price was NZ $6.69 per kg milk solids, and Fonterra expects this to ease to NZ$6.25-6.50 for the 2018/19 season, although this would still be above the 2016/17 season farmgate milk price of NZ$6.12.

Housing market conditions are mixed with considerable variation by geography:
- The REINZ's House Price Index grew by 4.0% over the year to September 2018. However, over this period there was minimal growth in Auckland and Canterbury while other localities experienced firm-to-strong house price inflation.
- In contrast, sales volumes declined by 3% over the year to September 2018, but with significant regional variation.
- According to the RBNZ, housing demand has been affected by tighter lending standards and government policy uncertainty.

The labour market has improved over the last year:
- Employment growth has been strong and the unemployment rate has fallen to 3.9%, its lowest level since 2008.
- Wage growth remains moderate but has shown signs of improving.

Overall system credit growth was 5.2% over the year to September 2018, down from 5.8% in September 2017, but off its recent trough of 5.0%.
- This reflects a slowing in business (excluding agriculture), housing and personal credit growth.
- Housing credit growth has, however, improved slightly since March 2018.

Outlook

The outlook for the Group's financial performance and outcomes is closely linked to the levels of economic activity in each of the Group's key markets as outlined above.

Disclosure on Risk Factors

Risks specific to the Group, including those related to general banking, economic and financial conditions

Set out below are the principal risks and uncertainties associated with the Company and its controlled entities (the Group). These risks and uncertainties are not listed in order of significance and it is not possible to determine the likelihood of these risks occurring. In the event that one or more of these risks materialise, the Group's reputation, strategy, business, operations, financial condition and future performance could be materially and adversely impacted.

Reputational damage may adversely impact the Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities. It may result in a higher risk premium being applied to the Group, and impact the cost of funding its operations or its financial condition. It may also result in regulators requiring the Group to hold additional capital, pay fines or incur additional costs, including costs to undertake remedial action. These impacts may affect the viability of some or all of the Group's business activities.

The Group's risk management framework and internal controls may not be adequate or effective in accurately identifying, evaluating or addressing risks faced by the Group. There may be other risks that are currently unknown or are deemed immaterial, but which may subsequently become known or material. These may individually or in aggregate adversely impact the Group. Accordingly, no assurances or guarantees of future performance, profitability, distributions or returns of capital are given by the Group.

Risks specific to the banking and financial services industry

The nature and impact of these external risks are generally unpredictable and are beyond the Group's direct control.

The Group may be adversely impacted by macro-economic and geopolitical risks and financial market conditions.

The majority of the Group's financial services businesses operate in Australia and NZ, with branches in Asia, the UK and the US. The business activities of the Group are dependent on the nature and extent of banking and financial services and products required by its customers globally. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, market interest rates, and other economic and financial market conditions and forecasts.

Domestic and international economic conditions and forecasts are influenced by a number of macro-economic factors, such as economic growth rates, cost and availability of capital, central bank intervention, inflation and deflation rates, and market volatility and uncertainty. Deterioration in any of these factors may lead to:
- Increased cost of funding or lack of available funding.
- Deterioration in the value and liquidity of assets (including collateral).
- Inability to price certain assets.
- An increase of customer or counterparty default and credit losses.
- Higher provisions for credit impairment.
- Mark-to-market losses in equity and trading positions.
- Lack of available or suitable derivative instruments for hedging purposes.
- Lower growth in business revenues and earnings. In particular, the Group's wealth business earnings are

OPERATING AND FINANCIAL REVIEW (CONTINUED)

highly dependent on asset values, mainly the value of listed equities.
- Increased cost of insurance, lack of available or suitable insurance, or failure of the insurance underwriter.

Economic conditions may also be impacted by climate change and major shock events, such as natural disasters, war and terrorism, political and social unrest, and sovereign debt restructuring and defaults.

The following are examples of macro-economic and financial market conditions that are currently relevant to the Group and may adversely impact its financial performance and position:
- Continued above-trend global growth is leading to lower unemployment rates and reductions in spare productive capacity. Modest inflation, which has allowed key central banks to keep their policy interest rates low by historical standards, is starting to reverse. Policy rates have risen most rapidly in the US, but have also increased in Canada and the UK. While not yet raising rates, the European Central Bank has stated that it intends to end its asset purchase program by the end of 2018, reducing monetary stimulus. Further increases in policy rates are expected going forward as global monetary policy is gradually normalised.
- Sustained low central bank policy rates, combined with unconventional monetary policy in a number of regions, have created considerable financial vulnerabilities across the globe with high debt levels and elevated asset prices in many regions. Potentially significant risks are associated with rising interest rates, both in terms of asset repricing and mismatches in asset and debt maturities. If the rise in US inflation and interest rates is above the gradual pace currently expected by markets, these risks will be magnified. Increases in global bond yields could also affect Australian and NZ markets. The increased spread between bank bill rates and overnight indexed swap rates adds to potential funding costs, and it remains unclear how long market pricing will continue at these higher spreads.
- Government debt is exceptionally high across large advanced economies, impacting on sovereign credit ratings and funding costs. While Australian and NZ government debt remains low by advanced economy benchmarks, any decreases in their sovereign credit ratings could have an adverse effect on the Group's businesses located in both countries. The global economy is highly leveraged and as bond rates increase, it adds business risks in key export markets. Household debt is also at elevated levels across a range of emerging and advanced economies, including Australia and NZ.
- Regulators have warned that many valuations look stretched by either historical or conventional valuation standards. Prices for US equities, commercial real estate in the US and UK, and residential property in Pacific Rim metropolitan centres appear elevated. An increase in interest rates or a decrease in income could trigger declines in some of the collateral values.
- Low central bank policy rates and compressed risk premiums led investors to take on more risk in their search for yield. This has resulted in capital flowing towards a range of riskier government and corporate borrowers who are more vulnerable to default as interest rates start to rise.
- Emerging market currencies have fallen sharply since the first quarter of 2018, as have equity markets in these regions. Although concerns are currently localised in a few countries, negative sentiment could result in contagion across the regions, driving capital outflows that could place strain on financial markets. Countries with large foreign currency denominated debts are particularly exposed.
- Capital flows back to the US could lead to lower exchange rates elsewhere, and to higher interest rates and credit downgrades in borrowing countries, particularly those with current account deficits and net foreign debt. Countries across Latin America, Africa, Asia and Eastern Europe appear vulnerable to movements in capital back toward the US as yields increase.
- Concerns around the stability of emerging market economies have risen in recent months. While largely related to specific domestic issues in a limited number of economies (most notably Turkey, Argentina and Brazil), credit default swap spreads across a broad range of emerging market economies have risen considerably since early 2018. These measures are often an early warning indicator of financial stress in economies.
- Risks are increasing across the banking sector in East Asia. China's banks are exposed to highly geared corporates and real estate, and there is uncertainty over the outlook for Chinese non-performing loans. The high property prices and positive credit growth to gross domestic product gaps that exist in Hong Kong, Singapore and China illustrate potential problems in the event of a negative shock to the region's economies. China's extensive and complex shadow banking sector presents added risks.
- There are still pockets of concern throughout the global banking sector. In addition to emerging markets and East Asia, bank stresses still remain in parts of the Eurozone, especially in Italy, Spain and Portugal.
- Trade tensions between the US and major trading partners, most notably China, continue to escalate following the introduction of a series of tariff measures in both countries. Although China is the primary target of US trade measures, value chain linkages mean that other emerging markets, primarily in Asia, may also be impacted. China's policy response to these trade measures also presents a degree of uncertainty. There is some evidence of China's monetary policy easing and the potential for greater fiscal spending, which could worsen existing imbalances in its economy. This could undermine efforts to address already high debt levels, and increase medium-term risks.
- Continued economic growth in China is important to Australia and NZ, with ongoing trade and investment

OPERATING AND FINANCIAL REVIEW (CONTINUED)

exposure to any sharp slowdown in the rapid pace of Chinese economic growth. China's high and growing debt burden presents a risk to its medium-term growth prospects. Due to its export mix, Australia's economy is especially exposed to a sudden downturn in Chinese investment in business, infrastructure or housing.

- As commodity exporting economies, Australia and NZ are exposed to shifts in global commodity prices that can be sudden, sizeable and difficult to predict. Fluctuations in commodity markets can affect key economic variables like national income, tax receipts and exchange rates. Previous sharp declines in commodity prices in Australia and NZ were driven by sub-trend global growth constraining demand, combined with increases in commodity supply. Commodity price volatility remains substantial and the Group has sizeable exposures to commodity producing and trading businesses.
- Residential property prices in certain major metropolitan areas in Australia and NZ are high relative to standard affordability metrics. High levels of immigration have underpinned elevated levels of housing demand, supporting these property market values. A range of factors could contribute to lower residential property prices. This includes regulatory changes which may impact the availability of credit, shifts in political platforms that are less favourable to immigration and overseas investment, changes to policy regarding negative gearing and capital gains tax, and rising unemployment.
- Geopolitical risks continue to present uncertainty to the economic outlook. An increasing fragmentation and a rise in populism in many major democratic economies have led to difficulties in policy implementation. The likelihood of the UK leaving the European Union without a withdrawal agreement has increased, posing greater economic uncertainty for the European region. In addition, the changing nature of US foreign policy has contributed to higher geopolitical risk, particularly given the ongoing uncertainty around the Korean Peninsula, South China Sea and Iran nuclear sanctions.

The Group is subject to extensive regulation. Regulatory changes may adversely impact the Group's reputation, operations, and financial performance and position.

The Group is highly regulated in jurisdictions in which it operates, trades or raises funds, and is subject to supervision by a number of regulatory authorities and industry codes of practice. Regulations vary across jurisdictions and are designed to protect the interests of customers, policy holders, security holders, and the banking and financial services system as a whole. Changes to laws and regulations or changes to regulatory policy or interpretation can be unpredictable, are beyond the Group's control, and may not be harmonised across the jurisdictions in which the Group operates. Regulatory change may result in significant capital and compliance costs, changes to corporate structure and increasing demands on management, employees and information technology systems. This may also result in changes in the viability of the Group's participation in certain markets, or the need to divest components of its operations.

The financial services and banking industries in Australia and NZ are currently operating in an environment of heightened regulatory and political scrutiny. Recommendations from reviews and inquiries, and regulatory and legislative changes, may result in significant reforms to the financial services and banking industry. For instance:

- In December 2017, the Australian Government established a Royal Commission into 'Misconduct in the Banking, Superannuation and Financial Services Industry'. A Royal Commission is a formal public inquiry that can only be instigated by the executive branch of the Australian Government and is directed by terms of reference. During 2018, the Royal Commission has conducted public hearings on a wide range of matters that relate to the business and operations of the Group, including consumer lending, business lending, provision of financial advice and the conduct of the financial regulators. The final report of the Royal Commission is due by February 2019. In the Interim Report released on 28 September 2018, the Commissioner has identified a series of questions that have arisen from the Royal Commission's work so far. These questions are intended to provoke further debate around the reasons for prior conduct and what changes could be made to the financial services industry to prevent misconduct in the future. In its final report, the Royal Commission is expected to make recommendations which, if implemented, could impact the Group's business. The Group remains committed to fully co-operating with the Royal Commission to ensure its success.
- In May 2018, the RBNZ and the NZ Financial Markets Authority initiated a review of conduct and culture in the NZ banking industry, with a number of industry-wide recommendations included in a report published 5 November 2018. Specific recommendations for individual NZ banks (including BNZ) are expected to be provided in November 2018. The outcome of this review may lead to further increased political or regulatory scrutiny of the banking industry in NZ, which could adversely impact BNZ.
- In April 2018, APRA released the Final Report of its 'Prudential Inquiry into the Commonwealth Bank of Australia'. APRA has requested that the other major banks (including the Company) conduct a self-assessment against each of the issues raised by the report.
- Supervision, regulation and enforcement in relation to anti-bribery and corruption, anti-money laundering (AML) and counter-terrorism financing (CTF) laws and trade sanctions has increased. In June 2018, Australia's financial intelligence agency, AUSTRAC, reached an agreement with another major Australian bank for a $700 million penalty relating to serious breaches of AML / CTF laws.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

- Legislation to implement the Banking Executive Accountability Regime came into effect for the Group from July 2018. This legislation is intended to increase the responsibility and accountability of ADIs and their directors and senior executives.
- In September 2018, a Bill was introduced into Parliament that would, if passed, impose additional obligations on the Group regarding the design and distribution of financial products. The Bill would also grant product intervention powers to ASIC if it believes significant consumer detriment may occur.
- ASIC announced in August 2018 that it plans to strengthen its enforcement and supervisory capabilities, including embedding dedicated supervisory staff within large financial institutions to monitor their governance and compliance with laws.
- In March 2018, legislation was passed to extend and enhance APRA's powers to address crises affecting financial sector entities. The legislation confers broad powers on APRA to intervene in the operation of ADIs and, in some cases, their subsidiaries.
- There have been a number of other ongoing inquiries such as the House of Representatives Standing Committee on Economics' 'Review of the Four Major Banks'; the Productivity Commission's inquiry into 'Competition in the Australian Financial System'; and the Australian Competition and Consumer Commission's 'Residential mortgage products price inquiry' and 'Inquiry into foreign currency conversion services'.

Implementation of the Basel Committee on Banking Supervision's (BCBS) reforms will continue in Australia and other jurisdictions relevant to the Group. In December 2017, the BCBS finalised the Basel III framework. Regulatory changes that have followed include:

- In Australia, APRA commenced consultation on revisions to the capital framework in February 2018 and reaffirmed its intention to strengthen banking system resilience by establishing 'unquestionably strong' capital ratios. The major Australian banks are expected to have Common Equity Tier 1 capital ratios of at least 10.5% by January 2020. Consultation is expected to continue into 2019, and has to date included consideration of 'benchmarks for capital strength', 'risk sensitivity' and 'transparency, comparability and flexibility' of the capital framework. Revised prudential requirements are expected to commence from 1 January 2021.
- In NZ, the RBNZ is undertaking a review of the capital adequacy framework applying to registered banks incorporated in NZ. The aim is to identify a framework for setting capital requirements for NZ banks, while taking into account how the current framework has operated and international developments in bank capital requirements. In December 2017, the RBNZ published its 'in-principle' decisions on the definition of capital, which included the removal of contingent capital instruments, and has subsequently released 'in-principle' decisions relating to the calculation of risk weighted assets. The RBNZ will perform an analysis of the potential costs and benefits of decisions made to date, with further consultation to be undertaken on the setting of minimum capital ratios.

Examples of other current and potential regulatory changes impacting the Group are:

- The Australian Government announced its support for recommendations arising from the release of the report and public consultation on the 'Review into Open Banking in Australia'. This is designed to increase access to banking products and data by customers and third parties. Consultation on the exposure draft legislation for the regime has commenced, with reforms expected to phase in from July 2019. This, in addition to the passing of legislation to relax restrictions on the use of the term 'bank', is expected to reduce the barriers to new entrants to, and increase competition in, the banking industry.
- On 8 November 2018, APRA released a discussion paper outlining its proposals for increasing the loss-absorbing capacity of ADIs. The proposals are consistent with the Financial System Inquiry recommendation to implement a framework sufficient to facilitate the orderly resolution of Australian ADIs and minimise taxpayer support. The paper outlines, for Domestic Systemically Important Banks (D-SIBs), an increase in the Total capital requirement of between 4-5% of risk-weighted assets. It is anticipated that D-SIBs (including the Group) would satisfy this requirement predominantly with the issue of additional Tier 2 capital, which is expected to increase the Group's ongoing cost of funds. APRA's consultation process is expected to be completed during 2019, with adjusted capital requirements to apply by 2023.
- In July 2018, APRA commenced consultation regarding revisions to the related parties framework, including proposals to update related entity exposure limits and the extended licensed entity framework. The final framework is scheduled to be implemented from January 2020.
- The RBNZ issued its revised Outsourcing Policy in September 2017 which focuses on services outsourced by NZ registered banks, including services provided by parent banks offshore. Compliance with the policy is required by September 2022. Implementation of, and compliance with, the final policy may impact the Group's operations.
- Introduction of legislation to improve accountability in superannuation. There are also proposed changes to the superannuation prudential framework to lift operational governance practices of APRA-regulated superannuation trustees.
- Changes to financial benchmarks, including their supervision and regulation, payments, data protection and privacy laws, data quality, accounting and reporting requirements, tax legislation and bank specific tax levies. This includes the major bank levy which became effective in July 2017, and similar levies that Australian State and Territory Governments may introduce.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

The full scope, timeline and impact of current and potential inquiries and regulatory reforms such as these, or how they will be implemented (if at all in some cases), is not known. Depending on the specific nature of the requirements and how they are enforced, they may have an adverse impact on the Group's business, operations, structure, compliance costs or capital requirements, and ultimately its reputation, financial performance and prospects.

The Group faces intense competition, which may adversely impact its financial performance and competitive position.

There is substantial competition across the markets in which the Group operates. Increasing competition for customers can lead to compression in profit margins or loss of market share. The Group faces competition from established financial services providers as well as new market entrants, including foreign banks and non-bank competitors with lower costs and new operating and business models. Evolving industry trends and anticipated rapid changes in technology may impact customer needs and preferences. The Group may not predict these changes accurately or quickly enough, or have the resources and flexibility to adapt in sufficient time to keep pace with industry developments and meet customer expectations.

Risks specific to the Group

There are a number of risks which arise directly from the operations of the Group as a major participant in the banking and financial services industry and from the specific structure of the Group. The Group's financial performance and position are, and in the future may continue to be, impacted by these risks, as set out below.

The Group is exposed to credit risk, which may adversely impact its reputation, and financial performance and position.

Credit risk is the potential that a customer will fail to meet its obligations to the Group in accordance with agreed terms. Lending activities account for most of the Group's credit risk. Other sources of credit risk also exist in banking and trading books, other financial instruments and loans, extension of commitments and guarantees, and transaction settlements.

The Group's lending portfolio includes residential housing loans, a material component of the Group's total gross loans and acceptances, and commercial real estate loans (largely in Australia and NZ). Credit risk may increase in response to adverse business or economic conditions (including deterioration in valuations or prices of residential and commercial property), a decline in employment levels, volatility in the political environment, or high levels of household debt in Australia and NZ.

The Group may also be exposed to the increased risk of counterparty or customer default should interest rates rise above the record or near record lows of recent years. In particular, the Group's portfolio of interest-only loans across retail and non-retail segments and the residential investor mortgage portfolio may be susceptible to losses in the event of a rise in interest rates or a decline in property prices. The Group may also be exposed to counterparty default in the event of deterioration in the market for apartments, through retail lending and non-retail lending to property developers.

The Group's large business lending market share in Australia and NZ exposes it to potential losses and reputational damage should adverse conditions be experienced by customers in the non-retail segment. Similarly, the Group has a large market share in the Australian and NZ agricultural sectors, particularly the dairy sector in NZ. Volatility in commodity prices, foreign exchange rate movements, disease and introduction of pathogens and pests, export and quarantine restrictions and other risks may adversely impact these sectors and the Group's financial performance and position.

Key sources of potential credit risk currently include:

- A decline in the value of residential property has been observed in a number of areas of Australia. Should this trend continue, the Group may be subject to an increase in credit losses from lending secured by these assets.
- The retail trade sector is confronting challenges that may impact the ability of some retail traders and owners of retail property to meet their credit obligations. These include low household income growth, international entrants, and the growth of online channels.
- Climate change may present risks arising from extreme weather events that affect property or business operations, the effect of new laws and government policies designed to mitigate climate change, and impacts on certain customer segments as the economy transitions to renewable and low-emission technology. As a result, there is a risk of the Group funding customers secured by assets in sectors experiencing structural decline and with limited liquidity.
- Parts of eastern Australia are experiencing severe drought conditions. The impact is expected to extend beyond primary producers, to customers who are suppliers to the agricultural sector, and to those who reside and operate businesses within regional and rural communities.
- The NZ dairy sector experienced financial pressure due to lower milk solid payouts in 2015/16. While milk solid pay-outs have improved, global dairy prices have eased slightly since May 2018. A significant decrease in global dairy prices or milk solid pay-outs may adversely impact the sector's ability to service debt. The Australian dairy industry has also faced lower milk prices and industry disruption.

The Group provides for losses in relation to loans, advances and other assets. Estimating losses in the loan portfolio is, by its very nature, uncertain. The accuracy of these estimates depends on many factors, including general economic conditions, forecasts and assumptions, and involves complex modelling and judgements. If the information or the assumptions upon which assessments

OPERATING AND FINANCIAL REVIEW (CONTINUED)

are made prove to be inaccurate, the provisions for credit impairment may need to be revised. This may adversely impact the Group's financial performance and position.

The Group may suffer losses due to its exposure to operational risks, which may adversely impact its reputation, and financial performance and position.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This includes legal risk but excludes strategic and reputational risk. Operational risks are a core component of doing business arising from the day-to-day operational activities of the Group as well as strategic projects and business change initiatives. Given that operational risks cannot be fully mitigated, the Group determines an appropriate balance between accepting potential losses and incurring costs of mitigation.

An operational risk event may give rise to substantial losses, including financial loss, fines, penalties, personal injuries, reputational damage, loss of market share, property or information, customer redress, litigation, or a fall in the Company's share price. In addition, the event may adversely affect the perceptions of the Group held by the public, shareholders, investors, customers, regulators or ratings agencies. Social media may also influence perceptions of the Group. Losses from operational risk events may adversely impact the Group's reputation, and financial performance and position. Examples of operational risk events include:

- Fraudulent or unauthorised acts by employees, contractors and external parties.
- Systems, technology and infrastructure failures, cyber incidents, including denial of service and malicious software attacks, or unauthorised access to customer or sensitive data.
- Process errors or failures arising from human error, including incorrect or incomplete data capture and records maintenance, or inadequate design of processes or controls.
- Operational failures by third parties, including offshored and outsourced service providers.
- Weaknesses in employment practices, including diversity, discrimination and workplace health and safety.
- Deficiencies in product design or maintenance.
- Business disruption and property damage arising from events such as natural disasters, climate change, biological hazards or acts of terrorism.

In addition, the Group is dependent on its ability to retain and attract key management and operating personnel. The unexpected loss of key resources, or the inability to attract personnel with suitable experience, may adversely impact the Group's ability to operate effectively and efficiently, or to meet strategic objectives.

Models are used extensively in the conduct of the Group's business, for example, in calculating capital requirements and measuring and stressing exposures. If the models used prove to be inadequate or are based on incorrect or invalid assumptions, judgements or inputs, this may adversely affect the Group's financial performance and position.

The Group may be exposed to compliance and conduct risk, which may adversely impact its reputation, and financial performance and position.

Compliance risk is the risk of failing to understand and comply with relevant laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives, as well as internal policies, standards, procedures and frameworks. This includes compliance with financial crime obligations in the jurisdictions in which the Group operates. Conduct risk is the risk that any action of the Group, or those acting on behalf of the Group, will result in unfair outcomes for customers. This may include detrimental practices, such as:

- Selling or unduly influencing customers to purchase products or services that do not meet their needs or are not suitable.
- Conducting inappropriate market practices or being a party to fraudulent or illegal transactions.
- Non-adherence to applicable fiduciary requirements or provision of financial advice which is inappropriate or not in the best interests of customers.
- Delays in appropriately escalating regulatory issues.
- Failure to resolve issues and remediate customers on a timely basis.

Significant regulatory change and public scrutiny of the global financial services industry by conduct-based regulators and government is driving increased standards and customer expectations.

Interpretation of, and guidance in relation to, responsible lending obligations under the *National Consumer Credit Protection Act 2009* have evolved in recent years and have been the subject of recent focus at the Royal Commission. Changes to these regulations or their interpretation, or the potential for increased regulatory and public scrutiny in relation to these obligations may necessitate the changing of processes or procedures in relation to consumer lending.

If the Group's compliance and conduct related controls were to fail significantly, be set inappropriately, or not meet legal, regulatory or community expectations, then the Group may be exposed to:

- Increased costs of compliance, fines, additional capital requirements, public censure, litigation, settlements and restitution to customers.
- Increased supervision, oversight or enforcement by regulators or other stakeholders.
- Unenforceability of contracts such as loans, guarantees and other security documents.
- Enforced suspension of operations, amendments to licence conditions or loss of licence to operate all or part of the Group's businesses.
- Other enforcement or administrative action or agreements, such as enforceable undertakings.

This may adversely impact the Group's reputation, and financial performance and position.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

There have been a number of domestic and international firms facing high profile enforcement actions, including substantial fines, for breaches of laws or regulations.

From time to time, Group members are subject to regulatory reviews, which may be industry-wide or specific to the Group. In addition, the Group carries out investigations of certain conduct itself or with the assistance of a third party.

Currently, there are a number of ongoing reviews, investigations and court proceedings involving the Group. These include matters relating to: the provision of financial advice; the charging of fees for services that may not have been provided to customers; selling practices and advice in relation to consumer credit insurance products; and the identification, notification and remediation of AML / CTF compliance issues and weaknesses. Refer to *Note 29 Contingent liabilities and credit commitments* of the financial statements for further details on the matters referred to above and other regulatory compliance and conduct investigations and reviews, class actions and court proceedings involving the Group. The potential outcome and total costs associated with these investigations, reviews and court proceedings remain uncertain at this time, and it is possible that further class actions could arise in relation to these matters.

In August 2018, plaintiff law firm Slater & Gordon announced that it will be launching a series of class actions against bank-owned superannuation funds. The actions will focus on certain financial advice fees, as well as circumstances in which superannuation trustees are alleged to have failed to act in the best interests of members (for example, by not obtaining the most competitive interest rate available on cash investments). To date, one class action of this nature has been filed against another major bank.

Where appropriate, provisions are held for conduct and litigation matters based on a number of assumptions derived from a combination of past experience, forecasts, industry comparison and the exercise of subjective judgement based on (where appropriate) external professional advice. Risks and uncertainties remain in relation to these assumptions and the ultimate costs of redress to the Group. These factors mean that the eventual costs of conduct and compliance-related matters may differ materially from those estimated and further provisions may be required, adversely impacting the Group's reputation, and financial performance and position.

Disruption of technology systems or breaches of data security may adversely impact the Group's reputation, operations, and financial performance and position.

Most of the day-to-day operations of the Group are based on technology, and therefore the reliability and security of the Group's information technology systems and infrastructure are essential to its business. Technology risk may arise from an array of factors including complexity within the technology environment, a failure of these systems to operate effectively, an inability to restore or recover such systems in acceptable timeframes, failure to keep technology up-to-date, a breach of data security, or other forms of cyber-attack or physical attack. These factors may be wholly or partially beyond the control of the Group. Such events may result in disruption to operations, customer compensation, reputational damage, adverse impact on speed and agility in the delivery of change and innovation, litigation, loss or theft of customer data, or regulatory investigations and penalties. These risks may adversely impact the Group's reputation, and financial performance and position.

The rapid evolution of technology in the financial services industry and the increased expectation of customers for internet and mobile services on demand, expose the Group to new challenges in these areas.

The Group processes, stores and transmits large amounts of personal and confidential information through its computer systems and networks. The Group invests significant resources in protecting the confidentiality and integrity of this information. However, threats to information security are constantly evolving and techniques used to perpetrate cyber-attacks are increasingly sophisticated. The Group may not be able to anticipate a security threat, or be able to implement effective measures to prevent or minimise the resulting damage. An information security breach may result in operational disruption, regulatory enforcement actions, financial losses, theft or loss of customer data, or breach of privacy laws, all of which may adversely impact the Group's reputation, and financial performance and position.

As with other business activities, the Group uses select external providers (in Australia and overseas) to store confidential data and to also develop and provide its technology solutions, including the increasing use of cloud infrastructure. The failure of any external providers to perform their obligations to the Group or the failure of the Group to appropriately manage those providers, may adversely impact the Group's reputation, and financial performance and position.

Certain strategic decisions, including acquisitions or divestments, may adversely impact the Group's reputation, and financial performance and position.

Strategic risk is the risk associated with the pursuit of the Group's strategic objectives, and includes the risk that the Group may fail to execute the chosen strategy. There is a risk that the assumptions underlying the Group's strategic decisions are (or prove to be) incorrect, or that the conditions underpinning those strategic decisions may change. The Group may not have the resources or flexibility to adapt quickly (or at all) to such change. In addition, any one or more of the Group's strategic initiatives may prove to be too difficult or costly to execute effectively. The Group regularly considers a range of corporate opportunities including acquisitions, divestments, joint ventures and investments. Opportunities that are pursued may change

OPERATING AND FINANCIAL REVIEW (CONTINUED)

the Group's risk profile and capital structure, and inherently come with transaction risks including over-valuation of an acquisition (or under-valuation of a divestment), and exposure to reputational damage and financial risks.

Risks may arise through the integration or separation of a business, including failure to realise expected synergies, disruption to operations, diversion of management resources or higher than expected costs. In addition, the Group may have ongoing exposures to divested businesses, including through the provision of continued services and infrastructure (such as the transitional services being provided to CYBG PLC (CYBG) and MLC Limited) or the retention of liabilities, including through warranties and indemnities in sale agreements such as the Conduct Indemnity Deed with CYBG. Refer to *Note 29 Contingent liabilities and credit commitments* of the financial statements under the heading *UK conduct issues and the Conduct Indemnity Deed*.

In addition to the risks described above, a number of specific risks exist in connection with the sale of 80% of MLC Limited to Nippon Life Insurance Company (Nippon Life). The Company gave certain covenants, warranties and indemnities in favour of Nippon Life, a breach or triggering of which may result in the Company being liable to Nippon Life. The Company also entered into long-term agreements in relation to the distribution of life insurance products and the continued use of the MLC brand by MLC Limited. The duration and nature of these agreements give rise to certain risks, including that changes in the regulatory or commercial environment may impact the commercial attractiveness of these agreements and limit future opportunities for the Company through non-compete arrangements.

The Company agreed to take certain actions to establish MLC Limited as a standalone entity, including the provision of transitional services, data migration and the development of technology systems. As this work is yet to be completed, there is a risk that implementation costs may ultimately prove higher than anticipated. The Company may also be liable to MLC Limited if it fails to perform its obligations in accordance with the agreements relating to these matters. Refer to *Note 29 Contingent liabilities and credit commitments* of the financial statements under the heading *MLC Limited life insurance transaction*.

As announced on 3 May 2018, the Group intends to pursue a divestment of its Advice, Platform & Superannuation and Asset Management businesses (MLC Wealth Divestment). The Group's decision to proceed with, and ability to execute, the MLC Wealth Divestment is subject to a number of factors, including market conditions, the impact of any findings from the Royal Commission, the cost and complexity of separation, and obtaining Board and regulatory approvals. If the Group does proceed with the MLC Wealth Divestment, the Group will incur costs associated with the transaction and the terms of the transaction and execution of separation may create risks and uncertainty for the Group and its customers, aligned advisors, employees, suppliers and other counterparties. If the Group decides not to, or is unable to, proceed with the MLC Wealth Divestment, the Group will incur costs associated with the incomplete transaction and uncertainty may be created for customers, aligned advisors, employees, suppliers and other counterparties of the Advice, Platform & Superannuation and Asset Management businesses.

Transformation and change programs across the Group may not deliver some or all of their anticipated benefits and may adversely impact the Group's reputation, and financial performance and position.

The Group invests significantly in change across the organisation, including technology, infrastructure and cultural transformation. There is a risk that these programs may not realise some or all of the anticipated benefits. The Group also continues to pursue business process improvement initiatives and invest in technology to achieve its strategic objectives, meet changing customer expectations and respond to competitive pressures. These process changes may increase operational, compliance and other risks, which may adversely impact the Group's reputation, and financial performance and position.

The Group may be exposed to losses if critical accounting judgements and estimates are subsequently found to be incorrect, which may adversely impact the Group's reputation, and financial performance and position.

Preparation of the Group's financial statements requires management to make estimates and assumptions and to exercise judgement in applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses. Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the estimates used in the calculation of provisions (including those pertaining to conduct-related matters), the valuation of goodwill and intangible assets, and the fair value of financial instruments.

If the judgements, estimates and assumptions used by the Group in preparing consolidated financial statements are subsequently found to be incorrect, there could be a significant loss to the Group beyond that anticipated or provided for, which may adversely impact the Group's reputation, and financial performance and position.

Litigation and contingent liabilities arising from the Group's business conduct may adversely impact its reputation, and financial performance and position.

Entities within the Group may be involved from time to time in legal proceedings arising from the conduct of their business. The aggregate potential liability and costs in respect thereof cannot be accurately assessed.

Refer to *Note 29 Contingent liabilities and credit commitments* of the financial statements for details in relation to the Group's material legal proceedings and contingent liabilities.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Insufficient capital may adversely impact the Group's reputation, operations and financial performance and position.

Capital risk is the risk that the Group does not have sufficient capital to meet prudential requirements, achieve strategic plans and objectives, cover the risks to which it is exposed, or protect against unexpected losses. The Group is required to hold minimum levels of capital relative to the balance sheet size and risk profile of its operations across jurisdictions.

Prudential capital requirements and proposed changes to these requirements may:
- Limit the Group's ability to manage capital across the entities within the Group.
- Limit payment of dividends or distributions on shares and hybrid instruments.
- Require the Group to raise or use more capital of higher quality, or to restrict balance sheet growth.

Additionally, if the information or the assumptions upon which assessments of capital requirements are made prove to be inaccurate, this may adversely impact the Group's operations, and financial performance and position.

The Group's funding and liquidity position may be adversely impacted by dislocation in global capital markets.

Funding risk is the risk that the Group is unable to raise short and long-term funding to support its ongoing operations, strategic plans and objectives. The Group accesses domestic and global capital markets as well as raising customer deposits to help fund its businesses. Dislocation in any of these capital markets, or reduced investor and customer appetite to hold the Group's securities or place deposit funds, may adversely affect the Group's ability to access funds or require access to funds at a higher cost or on unfavourable terms.

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of wholesale borrowings and loan capital as they mature and the payment of interest on borrowings. Any significant deterioration in the Group's liquidity position may lead to an increase in the Group's funding costs, constrain the volume of new lending, or result in the Group drawing upon its committed liquidity facility with the Reserve Bank of Australia. This may adversely impact the Group's reputation, and financial performance and position.

A significant downgrade in the Group's credit ratings may adversely impact its cost of funds, market access and competitive position.

Credit ratings are an opinion on the general creditworthiness of a borrower and may be an important reference for market participants in evaluating the Group and its products, services and securities. Credit rating agencies conduct ongoing review activities which can result in changes to credit rating settings and outlooks for the Group, or for sovereign governments in countries in which the Group conducts business. Credit ratings may be affected by operational and market factors, and changes in the rating methodologies used by the agencies.

A downgrade in the credit ratings within the Group or of the Group's securities, or a downgrade in the sovereign rating of one or more of the countries in which the Group operates, may increase the Group's cost of funds or limit its access to the capital markets. This may also cause a deterioration of the liquidity position and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. A downgrade to the Group's credit ratings relative to peers could also adversely impact the Group's competitive position.

Changes in interest rates may adversely impact the Group's financial performance and position.

Interest rate risk is the risk to the Group's financial performance and position caused by changes in interest rates. As interest rates and yield curves change over time, including negative interest rates in countries in which the Group operates, the Group may be exposed to a loss in earnings and economic value due to the interest rate profile of its balance sheet. In the banking industry, such exposure commonly arises from the mismatch between the maturity profile of a bank's lending portfolio compared to its deposit portfolio (and other funding sources). Interest rate risk also includes the risk arising out of customers' demands for interest rate-related products with various repricing profiles. It is also possible that both short and long-term interest rates may change in a way that the Group did not correctly anticipate.

The Group is exposed to foreign exchange and translation risk, which may adversely impact its financial performance and position.

Foreign exchange and translation risk arises from the impact of currency movements on the value of the Group's cash flows, profits and losses, and assets and liabilities due to participation in global financial markets and international operations.

The Group's ownership structure includes investment in overseas subsidiaries and associates and exposures from known foreign currency transactions (such as repatriation of capital and dividends from offshore subsidiaries). The Group also conducts business outside of Australia and transacts with customers, banks and other counterparties in a number of different currencies. The Group's businesses may therefore be affected by a change in currency exchange rates, or a change in the reserve status of any of these currencies. Any unfavourable movement in foreign exchange rates may adversely impact the Group's financial performance and position.

The Group's financial statements are prepared and presented in Australian dollars, and any fluctuations in the Australian dollar against other currencies in which the

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Group invests or transacts and generates profits (or incurs losses) may adversely impact its financial performance and position.

The Group may suffer significant losses from its trading activities, which may adversely impact the Group's reputation, and financial performance and position.

Traded market risk is the risk of losses arising from trading activities, including proprietary trading, undertaken by the Group. Losses can arise from a change in the value of positions in financial instruments or their hedges due to adverse movements in market prices. This includes changes in interest rates, foreign exchange rates, commodity and equity prices, and credit spreads.

Failure to sell down underwriting risk may result in losses to the Group and adversely impact its reputation, and financial performance and position.

As financial intermediaries, members of the Group underwrite or guarantee different types of transactions, risks and outcomes, including the placement of listed and unlisted debt, equity-linked and equity securities. The underwriting obligation or guarantee may be over the pricing and placement of these securities, and the Group may therefore be exposed to potential losses if it fails to sell down some or all of this risk to other market participants.

DIRECTORS' INFORMATION

Directors

Details of NAB directors in office at the date of this report (or holding office during the year), and each director's qualifications, experience and other directorships and interests are below.

The Board acknowledges that directors benefit from being involved in a broad range of governance roles and support such activities provided directors have the capacity to devote sufficient time and effort to fulfil their NAB responsibilities in a thorough manner. The Chairman, with the assistance of the Nomination & Governance Committee, has determined that each director has the capacity to devote sufficient time and effort to fulfil their NAB responsibilities taking into account their other commitments.

Dr Kenneth R Henry AC, BCom (Hons), PhD, DB h.c, FASSA, FAIIA
***Age*:** 60

Term of office: Director since November 2011. Chairman since December 2015. Chairman of the Board's Nomination & Governance Committee.

***Independent*:** Yes

***Skills & Experience*:** Over 30 years of experience in economics, policy and regulation, governance and leadership. Dr Henry served as the Secretary of the Department of the Treasury from 2001 to 2011. From June 2011 until November 2012, he was special adviser to the Prime Minister with responsibility for leading the development of the White Paper on Australia in the Asian Century. He is a former member of the Board of the Reserve Bank of Australia, the Board of Taxation, the Council of Financial Regulators, the Council of Infrastructure Australia and was Chair of both the Howard Government's Taxation Taskforce ('A New Tax System', 1997-1998) and the Review into Australia's Future Tax System (the 'Henry Tax Review') commissioned by the Rudd Government (2008-09). He was made a Companion of the Order of Australia in 2007 and received the Centenary Medal in 2001. He is Co-Chair of NAB's Indigenous Advisory Group.

Directorships of listed entities:
ASX Limited (since February 2013)

Dr Henry's other directorships and interests include Sir Roland Wilson Foundation (Chairman), Cape York Partnership, Committee of Economic Development of Australia (Governor), John Grill Centre for Project Leadership's Advisory Board and Australia-China Senior Business Leaders Forum.

Mr Andrew G Thorburn BCom, MBA
Age: 53

Term of office: Director since August 2014.

Independent: No

Skills & Experience: Over 31 years of experience in banking and finance. Mr Thorburn joined NAB in January 2005 as Head of Retail Banking, was appointed Managing Director and CEO of the Bank of New Zealand (BNZ) in 2008 and joined the Group's Executive Leadership Team in January 2009. In August 2014, he was appointed to his current role as Group Chief Executive Officer and Managing Director.

Mr David H Armstrong BBus**,** FCA, MAICD

***Age*:** 60

***Term of office*:** Director since August 2014. Chairman of the Board's Audit Committee and a Member of the Risk Committee.

***Independent*:** Yes

***Skills & Experience*:** Over 30 years of experience in professional services, including as a partner at PricewaterhouseCoopers (PwC). Mr Armstrong has significant knowledge and understanding of banking and capital markets, real estate and infrastructure and is well versed in the reporting, regulatory and risk challenges faced by the industry.

Mr Armstrong's other directorships and interests include The George Institute for Global Health, Opera Australia Capital Fund Limited, Australian Museum (President) and Lizard Island Reef Research Foundation.

Mr Philip W Chronican BCom (Hons), MBA (Dist), GAICD, SF Fin
***Age*:** 62

***Term of office*:** Director since May 2016. Chairman of the Board's Risk Committee and a Member of the Remuneration Committee. Director of BNZ (a subsidiary of NAB).

Independent: Yes

***Skills & Experience*:** Over 35 years of experience in banking and finance in Australia and New Zealand. In his most recent executive role, Mr Chronican was responsible for Australia and New Zealand Banking Group Limited's (ANZ) Australia division, with specific responsibility for ANZ's Retail and Commercial businesses. Prior to joining ANZ, he had a long career at Westpac Banking Corporation (Westpac), where he established his reputation as one of Australia's leading banking executives, in executive roles including Group Executive Westpac Institutional Bank and Chief Financial Officer. He has broad experience in M&A activity and post-merger integration. In addition, he has taken an active and public role in advocating for greater transparency and ethics in banking and promoting workforce diversity.

Mr Chronican's other directorships include NSW Treasury Corporation (TCorp) (Chairman), Juvenile Diabetes Research Foundation (Australia), The Westmead Institute for Medical Research and Banking + Finance Oath.

Mr Peeyush K Gupta BA, MBA, AMP (Harvard), FAICD
***Age*:** 59

***Term of office*:** Director since November 2014. Member of the Board's Risk, Remuneration and Nomination &

DIRECTORS' INFORMATION (CONTINUED)

Governance Committees. Director of certain NAB Wealth and BNZ subsidiaries.

Independent: Yes

Skills & Experience: Over 30 years of experience in wealth management. Mr Gupta was a co-founder and the inaugural CEO of IPAC Securities, a pre-eminent wealth management firm spanning financial advice and institutional portfolio management, which was acquired by AXA. He has extensive corporate governance experience, having served as a director on many corporate, not-for-profit, trustee and responsible entity boards since the 1990s.

Directorships of listed entities:
Link Administration Holdings Limited (Link Group) (since November 2016)
Charter Hall WALE Limited (since May 2016)

Mr Gupta's other directorships include Insurance & Care NSW (iCare), Special Broadcasting Service Corporation and Charter Hall Direct Property Management Limited (Chairman).

Ms Anne J Loveridge BA (Hons), FCA, GAICD
Age: 57

Term of office: Director since December 2015. Chairman of the Board's Remuneration Committee and a Member of the Nomination & Governance Committee.

Independent: Yes

Skills & Experience: Over 30 years of experience in professional services including as a senior partner in the Financial Services practice at PwC, with expertise in the banking, property and wealth management sectors. Ms Loveridge has extensive knowledge and understanding of people leadership and development, financial and regulatory reporting, and risk management. While at PwC, she held senior leadership positions in the firm, including Deputy Chairman of PwC Australia, managing financial results, risk and quality matters, people and partner development, remuneration and diversity initiatives. She has significant corporate governance experience serving as a director and Chairman on both corporate and not-for-profit entity boards and committees.

Directorships of listed entities:
nib Holdings Limited (since February 2017)
Platinum Asset Management Limited (since September 2016)

Ms Loveridge's other directorships and interests include The Bell Shakespeare Company Limited (Chairman), member of Chief Executive Women (CEW) and International Women's Forum (Australia).

Ms Geraldine C McBride BSc
***Age*:** 57

***Term of office*:** Director since March 2014. Member of the Board's Audit Committee.

***Independent*:** Yes

***Skills & Experience*:** Over 27 years of experience in the technology industry and international business. Ms McBride is a former President of global software company SAP for North America and also held executive positions with SAP in Asia Pacific and Japan, as well as roles with Dell and IBM.

Ms McBride is the founder and CEO of MyWave. MyWave is an IT company that develops artificial intelligence based technology platforms for businesses.

Directorships of listed entities:
Sky Network Television Limited (since August 2013)
Fisher and Paykel Healthcare Corporation Limited (since July 2013)

Mr Douglas A McKay ONZM, BA, AMP (Harvard), CMInstD (NZ)

***Age*:** 63

***Term of office*:** Director since February 2016. Member of the Board's Audit and Nomination & Governance Committees. Chairman of BNZ (a subsidiary of NAB).

***Independent*:** Yes

***Skills & Experience*:** Over 30 years of senior commercial and operational experience, together with marketing and private equity experience. Mr McKay has a deep understanding of New Zealand and Australian markets having held CEO and Managing Director positions within major trans-Tasman companies and organisations including Auckland Council, Lion Nathan, Carter Holt Harvey, Goodman Fielder, Sealord and Independent Liquor.

Directorships of listed entities:
Genesis Energy Limited (since June 2014)
Fletcher Building Limited (since September 2018)

Mr McKay's other directorships and interests include Eden Park Trust (Chairman) and IAG (NZ) Holdings Limited.

Ms Ann C Sherry AO, BA, Grad Dip IR, FAICD, FIPAA

***Age*:** 64

***Term of office*:** Director since November 2017. Member of the Board's Remuneration Committee.

***Independent*:** Yes

***Skills & Experience*:** Over 20 years of experience in Executive roles within the banking, tourism and transport industries in Australia and New Zealand, together with significant experience in government and public service. Ms Sherry is the Chairman of Carnival Australia, the largest cruise ship operator in Australasia, having previously served as CEO and as Executive Chairman. Prior to joining Carnival Australia, she had 12 years' experience with Westpac where she held executive roles including CEO, Westpac New Zealand, CEO, Bank of Melbourne and Group Executive, People & Performance. Until recently, she was on the supervisory board of ING Group (Amsterdam) and was a director on the board of ING Direct (Australia). She was made an Officer of the Order of Australia in 2004.

DIRECTORS' INFORMATION (CONTINUED)

Directorships of listed entities:
Sydney Airport (since May 2014)

Ms Sherry's other directorships and interests include Carnival Australia (Chairman), UNICEF Australia (Chairman), Palladium Group, Cape York Partnership, Museum of Contemporary Art, Infrastructure Victoria, Rugby Australia, Trans-Tasman Business Council's ANZ Leadership Forum (Australian Chairman).

Mr Anthony K T Yuen B.Soc.Scs

Age: 68

Term of office: Director since March 2010. Member of the Board's Audit and Risk Committees.

Independent: Yes

Skills & Experience: Over 40 years of experience in international banking and finance. Prior to taking on a strategic investment management role on behalf of The Royal Bank of Scotland plc with Bank of China in 2006, Mr Yuen held senior executive roles, having Asia wide regional responsibility with Bank of America Corporation, National Westminster Bank plc and The Royal Bank of Scotland plc.

Mr Yuen's other interests include Committees of Hong Kong Red Cross and ABF Hong Kong Bond Index Fund.

Company Secretaries

Details of company secretaries of NAB in office at the date of this report (or holding office during the year) and each company secretary's qualifications and experience are below:

Ms Penelope MacRae BA (Hons), LLB (Hons) is the Group Company Secretary. She joined the Group in 2011 as a Senior Corporate Lawyer and was appointed assistant company secretary in December 2016 where she held responsibility for the Board Risk Committee and the management of the Group's Risk Management Committees. In January 2018, she was appointed Group Company Secretary and is responsible for advising and supporting the Board to enable it to fulfil its role on all governance matters. She has experience in a wide range of corporate, legal, governance, risk and regulatory matters.

Ms Kelly Patterson BA, LLB (Hons) joined the Group in 2015, having previously worked in the Group's United Kingdom (UK) operations, and was appointed as an assistant company secretary in April 2018. She is the Secretary of the Board Remuneration Committee and supports the Group Company Secretary in the structure and operation of the Group's corporate governance framework. She has experience in Australia and UK in a wide range of legal, governance and regulatory matters.

Mrs Louise Thomson BBus (Distinction), FGIA joined the Group in 2000 and was appointed Group Company Secretary in May 2013. Mrs Thomson took a year's leave of absence over the period 1 January 2018 to 31 December 2018 inclusive.

Ms Victoria Hodges BA, BCom, CA (Aust.) joined the Group in 2007 and was appointed as an assistant company secretary in February 2018. Ms Hodges resigned as an assistant company secretary on 3 August 2018.

Ms Elizabeth Melville-Jones BA, LLB, MBA joined the Group in 2015 and was appointed as an assistant company secretary in September 2015. Ms Melville-Jones resigned as an assistant company Secretary and left the Group on 6 April 2018.

Directors' and officers' indemnity

NAB's constitution

Article 20.1 of NAB's constitution provides that, to the maximum extent permitted by law, NAB may indemnify any current or former officer out of the property of NAB against:

- Any liability incurred by the person in the capacity as an officer (except a liability for legal costs)
- Legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative or investigatory nature, in which the officer becomes involved because of that capacity
- Legal costs incurred in connection with any investigation or inquiry of any nature (including, without limitation, a royal commission) in which the officer becomes involved (including, without limitation, appearing as a witness or producing documents) because of that capacity, and
- Legal costs incurred in good faith in obtaining legal advice on issues relevant to the performance of their functions and discharge of their duties as an officer, if that expenditure has been approved in accordance with the Board's charter,

except to the extent that:

- NAB is forbidden by law to indemnify the person against the liability or legal costs, or
- An indemnity by NAB of the person against the liability or legal costs, if given, would be made void by law.

Under Article 20.2, NAB may pay or agree to pay, whether directly or through an interposed entity, a premium for a contract insuring a person who is or has been an officer against liability incurred by the person in that capacity, including a liability for legal costs, unless:

- NAB is forbidden by law to pay or agree to pay the premium, or
- The contract would, if NAB paid the premium, be made void by law.

NAB may enter into an agreement with a person referred to in Articles 20.1 and 20.2 with respect to the subject matter of those Articles. Such an agreement may include provisions relating to rights of access to the books of NAB. In the context of Article 20, 'officer' means a director, secretary or senior manager of NAB or of a related body corporate of NAB.

NAB has executed deeds of indemnity in favour of each director of NAB and certain directors of related bodies corporate of NAB. Some companies within the Group have

DIRECTORS' INFORMATION (CONTINUED)

extended equivalent deeds of indemnity in favour of directors of those companies.

Directors' and officers' insurance

During the year, NAB, pursuant to Article 20, paid a premium for a contract insuring all directors, secretaries, executive officers and officers of NAB and of each related body corporate of NAB. The contract does not provide cover for the independent auditors of NAB or of a related body corporate of NAB. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered.

DIRECTORS' INFORMATION (CONTINUED)

Directors attendances at meetings

The table below shows the number of directors' meetings held (including meetings of Board Committees noted below) and the number of meetings attended by each of the directors of NAB during the year.

	Board		Audit Committee		Risk Committee		Nomination & Governance Committee		Remuneration Committee		Directors' meetings of controlled Entities [1]		Additional meetings [2]
Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**Attended**
Kenneth Henry	21	21	2	2	2	2	6*	6	12	12	-	-	9
David Armstrong	20	21	12*	12	11*	11	-	-	2	2	-	-	10
Philip Chronican	21	21	3	3	11*	11	-	-	13*	13	18	19	14
Peeyush Gupta	21	21	3	3	11*	11	6*	6	13*	13	29	30	2
Geraldine McBride	18	21	11*	12	1	1	-	-	-	-	-	-	-
Doug McKay	21	21	12*	12	11	11	6*	6	6	6	18	18	2
Anne Loveridge	21	21	2	2	1	1	6*	6	13*	13	-	-	5
Ann Sherry [3]	16	18	1	1	-	-	1	1	9*	10	-	-	4
Andrew Thorburn	21	21	2	2	10	10	-	-	10	10	-	-	4
Anthony Yuen	21	21	12*	12	11*	11	-	-	3	3	-	-	2

** Indicates that the director is a member of the Committee.*

(A) Number of meetings attended during the period.

(B) Number of meetings held during the year. Some meetings were joint meeting of Committees (or the Board and a Committee). In such cases, the meetings have been included in both columns. Where a director is not a member of a committee but was in attendance at a meeting (, due to a joint meeting or by choice), this column reflects the number of meetings attended.

(1) *Where a controlled entity holds board meetings in a country other than the country of residence of the director, or where there may be a potential conflict of interest, then the number of meetings held is the number of meetings the director was expected to attend, which may not be every board meeting held by the controlled entity during the year.*

(2) *Reflects the number of additional formal meetings attended during the year by each director, including committee meetings (other than Audit Committee, Risk Committee, Remuneration Committee or Nomination & Governance Committee) where any two directors are required to form a quorum.*

(3) *Ms Sherry joined the Board on 8 November 2017.*

For more information on Board Committee memberships, please refer to NAB's 2018 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance.

DIRECTORS' INFORMATION (CONTINUED)

Directors' and executives' interests

The tables below show the relevant interests of each director and senior executive in the issued ordinary shares and National Income Securities of NAB, and in registered schemes made available by the Group as at the date of this Report. No director or senior executive held an interest in Trust Preferred Securities of NAB.

	National Income Securities	Performance rights over NAB fully paid ordinary shares[1]	NAB fully paid ordinary shares[2]
	No.	No.	No.
Directors			
Kenneth Henry (Chairman)	-	-	10,360
David Armstrong	-	-	11,227
Philip Chronican	982	-	31,000
Peeyush Gupta	-	-	7,480
Anne Loveridge	-	-	10,000
Geraldine McBride	-	-	5,960
Doug McKay	-	-	10,000
Ann Sherry	-	-	7,456
Andrew Thorburn	-	883,451	273,600
Anthony Yuen	-	-	12,464
Senior executives			
Mike Baird	-	71,806	2,000
Sharon Cook	-	33,029	2,000
David Gall	-	222,002	74,681
Andrew Hagger	-	399,129	21,256
Anthony Healy	-	305,045	71,015
Gary Lennon	-	165,650	76,810
Angela Mentis	-	284,571	60,869
Lorraine Murphy	-	102,299	42,160
Rachel Slade	-	17,248	40,536
Patrick Wright	-	88,678	2,000

(1) *Further details of performance rights are set out in Note 34 Equity-based plans of the financial statements and Section 5.4 of the Remuneration Report.*
(2) *Information on shareholdings is disclosed in Sections 5.5 of the Remuneration report for the Group CEO and Senior Executives and Section 6.4 of the Remuneration report for non-executive directors.*

The directors from time-to-time invest in various debentures, registered schemes and securities offered by NAB and certain subsidiaries of NAB. The level of interests held directly and indirectly by a director as at 30 September 2018 were:

Directors	Nature of product	Relevant interest (Units)
David Armstrong	Convertible Preference Shares II (NABPB)	900
Ann Sherry	Convertible Preference Shares (NABPA)	1,500
Peeyush Gupta	MLC Private Equity Co-Investment Fund I	600,000
Peeyush Gupta	MLC Private Equity Co-Investment Fund II	700,000
Peeyush Gupta	MLC PIC-Wholesale Inflation Plus Assertive portfolio Fund	578,438

There are no contracts, other than those disclosed in the level of interests held table immediately above, to which directors are a party, or under which the directors are entitled to a benefit and that confer the right to call for, or deliver shares in, debentures of, or interests in, a registered scheme made available by NAB or a related body corporate. All of the directors have disclosed interests in organisations not related to the Group and are to be regarded as interested in any contract or proposed contract that may be made between NAB and any such organisations.

Executive performance rights

Performance rights are granted by NAB under the National Australia Bank Performance Rights Plan (performance rights plan). The performance rights plan was approved by shareholders at the 2002 Annual General Meeting. Each performance right entitles the holder to one NAB fully paid ordinary share subject to the satisfaction of certain conditions.

DIRECTORS' INFORMATION (CONTINUED)

All performance rights that have not expired are detailed below.

The number and terms of performance rights granted by NAB during 2018 under the performance rights plan and the number of performance rights exercised during 2018, are shown in the following table:

Exercise period [1]	Number held at 30 September 2018	Number exercised from 1 October 2017 to 30 September 2018	Number granted since 1 October 2017
Performance rights [2]			
19 December 2016 - 19 June 2018	-	910,069	-
22 May 2017 - 22 November 2017	-	-	-
19 June 2017 - 19 December 2017	-	-	-
19 June 2017 - 19 December 2018	-	-	-
16 November 2017 - 16 February 2018	-	131,743	-
18 November 2017 - 18 February 2018	-	124,905	-
20 December 2017 - 15 March 2018	-	-	-
20 December 2017 - 20 June 2019	596,716	-	-
20 June 2018 - 20 December 2019	60,204	-	-
31 August 2018 - 30 November 2018	10,849	-	10,849
15 November 2018 - 15 February 2019	101,274	-	110,046
16 November 2018 - 16 February 2019	99,337	-	-
20 December 2018 - 15 March 2019	29,190	-	-
21 December 2018 - 15 March 2020	876,584	-	-
15 May 2019 - 15 August 2019	5,245	-	5,245
21 June 2019 - 15 September 2020	65,609	-	-
31 August 2019 - 30 November 2019	5,380	-	5,380
15 November 2019 - 15 February 2020	85,956	-	95,345
21 December 2019 - 15 March 2020	755,007	-	-
15 May 2020 - 15 August 2020	5,590	-	5,590
31 August 2020 - 30 November 2020	6,656	-	6,656
20 December 2020 - 15 March 2021	1,405,127	-	1,052,128
15 May 2021 - 15 August 2021	13,549	-	13,549
20 December 2021 - 15 March 2022	582,621	-	646,316
15 May 2022 - 15 August 2022	14,440	-	14,440
15 May 2023 - 15 August 2023	15,392	-	15,392
15 May 2024 - 15 August 2024	9,188	-	9,188
15 May 2025 - 15 August 2025	9,800	-	9,800

(1) *Performance rights will expire if not exercised by the last day of their exercise period.*
(2) *Further details of performance rights are set out in Note 34 Equity-based plans of the financial statements. All shares issued or transferred on exercise of performance rights are NAB fully paid ordinary shares. No exercise price is payable for performance rights.*

Performance rights on issue and number exercised

There are currently 4,753,221 performance rights which are exercisable, or may become exercisable in the future under the performance rights plan. There are currently 131 holders of performance rights.

NAB has issued 10,849 fully paid ordinary shares since 30 September 2018 to the date of this report as a result of performance rights being exercised for no consideration.

For the period from 1 October 2017 to the date of this report, no performance rights expired and 968,293 performance rights lapsed.

Persons holding performance rights are not entitled to participate in capital actions by NAB (such as rights issues and bonus issues).

OTHER MATTERS

Litigation and disputes

From time to time entities within the Group may be involved in disputes or legal proceedings arising from the conduct of their business. The outcomes and total costs associated with such disputes and proceedings are typically uncertain. Any material legal proceedings may adversely impact the Group's reputation and financial performance and position.

Refer to *Note 29 Contingent liabilities and credit commitments* of the financial statements for details of the Group's material legal proceedings and contingent liabilities.

Future Developments

In the opinion of the directors, discussion or disclosure of any further future developments including the Group's business strategies and its prospects for future financial years would be likely to result in unreasonable prejudice to the interests of the Group.

Proceedings on behalf of NAB

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of NAB by a member or other person entitled to do so under section 237 of the *Corporations Act 2001* (Cth).

Events subsequent to reporting date

On 18 October 2018, with the prior consent of APRA, NAB announced it would exercise its option to redeem the £400 million Trust Preferred Securities on 17 December 2018. Each Trust Preferred Security will be redeemed for cash at its par value of £1,000, plus accrued distribution.

Other than the matter noted, there are no items, transactions or events of a material or unusual nature that have arisen in the period between 30 September 2018 and the date of this report that, in the opinion of the directors, have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

Integrity of reporting

The directors of NAB have a responsibility with respect to the integrity of external reporting. This involves reviewing and monitoring, with the assistance of the Board Audit Committee and management, the processes, controls and procedures which 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 NAB's 2018 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance.

Environmental and social regulation, risk and opportunities

The operations of the Group are not subject to any site specific environmental licences or permits which would be considered particular or significant environmental regulation under the laws of the Australian Commonwealth Government or of an Australian state or territory.

The operations of the Group are subject to the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER Act) as part of the legislative response to climate change in Australia. While this legislation is not particular to the Group or significant in its impact, the Group complied with its requirements. The NGER Act requires the Group to report on the period from 1 July to 30 June (the environmental reporting year). The Group's Australian vehicle fleet and building related net energy use reported under the NGER Act for the 2018 environmental reporting year was 599,527 gigajoules (GJ) (2017: 618,969 GJ), which is approximately 83% of the Group's measured total net energy use. The associated total greenhouse gas (GHG) emissions from fuel combustion (Scope 1) and from electricity use (Scope 2) were 108,192 tCO_2-e (2017:114,048 tCO_2-e).

During the 2018 environmental reporting year, the Group's total net GHG emissions (Scope 1, 2 and 3 [(1)]) were 180,950 tCO_2-e (2017: 186,872 tCO_2-e [(2)]), after accounting for use of certified renewable energy in the UK and generated renewable energy in Australia. The Group continues to implement an energy efficiency program, including energy efficiency opportunity assessments and sustainable building design. This helps to produce GHG emissions savings and contributes to the Group's carbon neutral status and delivery of the Group's climate change strategy. From 1 July 2006 to 30 June 2018, the Group identified 1,237 energy efficiency and 25 renewable energy opportunities in Australia alone. Implemented initiatives are estimated to provide more than 367,678 GJ (2017: 352,907 GJ) of ongoing annual energy savings. This equated to over $27.4 million in avoided costs in the 2018 environmental reporting year (2017: $19.5 million in avoided costs). A further nine energy efficiency and one renewable energy opportunities are in progress or approved to proceed.

The Group's main Melbourne-based data centre is subject to *National Environment Protection Measure* (National Pollutant Inventory) (NPI) reporting requirements in Australia. The NPI provides a public database of emissions and transfers of specified NPI substances from various facilities. The Group is required to report on these emissions because the volume of natural gas used to run the tri-generation plant at this facility triggers the NPI threshold. The Group has complied with this requirement.

In the United Kingdom, the Group participates in the Carbon Reduction Commitment Energy Efficiency Scheme (CRC EE Scheme). The Group's UK-based GHG emissions

(1) Scope 3 relates to all other indirect emissions that occur outside the boundary of the organisation as a result of the activities of the organisation, excluding emissions from electricity use which is Scope 2.
(2) Consolidated Scope 1, Scope 2 and selected Scope 3 GHG emissions (accounting for renewable electricity purchased in the UK) are for the environmental reporting year of 1 July – 30 June, 2017 net greenhouse gas emissions have been restated due to a recalculation of Scope 3 2017 base building electricity within Australia.

OTHER MATTERS (CONTINUED)

reportable under the CRC EE Scheme for the 2017/2018 compliance year (year ended 31 March 2018) were 0 tCO_2-e (2017: 0 tCO_2-e) because the Group's UK operations no longer have any reportable energy supplies (the Group occupies leased offices where the landlord pays the energy bills and includes a recharge in the lease outgoings). The Group's regulatory return was filed in July 2018 as required by the CRC EE Scheme Order 2010. This year, the Group was not required to purchase and surrender Carbon Reduction Commitment Allowances.

In 2014, the Group's UK-based operations became subject to the Energy Savings Opportunities Scheme (ESOS), which was introduced by the *ESOS Regulations 2014* which came into force in July 2014. The ESOS requires mandatory energy assessments (audits) of organisations' buildings and transport to be conducted every four years. The Group is progressing activities to ensure it fulfils its ESOS reporting obligation and confirms its qualification to ESOS Phase 2 requirements by 31 December 2018 as required for its London Branch.

As a lender, the Group may incur environmental liabilities in circumstances where it takes possession of a borrower's assets and those assets have associated environmental risks. The Group has developed and implemented credit policies to ensure that this risk is minimised and managed appropriately.

Climate Change

The Group recognises that climate change is a significant risk and a major challenge for the global economy and society. The Group supports the transition to a low carbon economy consistent with the Paris Agreement to limit global warming to less than two degrees above pre-industrial levels.

In addition to responding to relevant regulatory requirements, as a global provider of financial products and services, the Group seeks to play a key role in financing the low carbon transition and green growth [1], and in doing so, make a contribution to the environmental sustainability of the communities in which it operates. Recognising the impact of climate change on the Group, its customers and the community, and building climate change considerations into the Group's strategy, is consistent with the Group's goal of long-term value creation. Therefore, the Group is actively helping its customers through this transition. The following is a high level summary of the Group's approach to climate change governance, strategy, risk management, and metrics and targets consistent with the Taskforce on Climate-Related Financial Disclosures recommendations.

Governance

The Board retains ultimate oversight for Environmental, Social and Governance (ESG) risks and issues, including climate change. This is one of three designated focus areas in the Group's Environmental Agenda – in addition to natural value and resource scarcity. The Board receives regular reports on a range of climate change related issues including progress against the Group's climate change strategy, climate-related credit risk policy settings, commitments, targets and initiatives, environmental operational performance, carbon neutral status, and concerns raised by stakeholders. The Board also receives updates on regulatory change and greenhouse and energy reporting returns that require noting by the Board before submission to regulators. Board Committees may also receive reports related to climate change matters that fall under their charters, particularly the Board Risk Committee, which has oversight of risk appetite, scenarios and stress testing.

Risk Management

ESG Risks, including climate change, are identified, measured, monitored, reported and overseen in accordance with the Group's Risk Management Framework (as described in the Group's Risk Management Strategy). The Group Regulatory, Compliance and Operational Risk Committee has oversight of these risks and the Group's environmental performance and Environmental Agenda, including climate change. The Group Credit and Market Risk Committee oversees ESG risk in the context of the credit risk portfolio. This includes credit policy settings for climate intensive, low carbon and climate-sensitive sectors. Matters are escalated to the Group Risk Return Management Committee, Board Committees and Board as required.

The Group's Climate Change Working Group (CCWG), with management representatives from across the Group, reviews the key risks and opportunities facing the Group and its customers arising from the Paris Agreement and monitors and supports the implementation of the Group's climate change strategy. Updates on implementation of the Group's climate change strategy are reported by the CCWG through to management, executive and the Board.

In the 2018 financial year, the Group progressed a number of climate risk-related activities and projects to continue to build the Group's understanding of climate related risks and opportunities, including:

- Participating in the United Nations Environment Program Finance Initiative (UNEP FI) pilot project with 15 other UNEP FI member banks to test recommendations made by the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). See page 33 for further details.
- Undertaking a review of the Group's credit risk policy settings for the power generation and oil and gas sectors. This review considered a range of factors including: (i) various climate change scenarios for both transition and physical risk; (ii) customer strategies and plans and their alignment to the Paris Agreement 2°C climate goal; (iii) industry trends; and (iv) trends in Group exposures to these sectors. The Group's review of the oil and gas sector is part of a phased review of credit risk policy settings for carbon intensive sectors, climate

(1) *Green growth describes a path of economic growth that uses natural resources in a sustainable manner.*

OTHER MATTERS (CONTINUED)

sensitive and low carbon sectors that commenced in the 2017 financial reporting year and will run through to the 2020 financial reporting year. Following the first sector review on coal mining in the 2017 financial reporting year, the Group disclosed that whilst it would continue to support existing customers across the mining and energy sectors to facilitate an orderly transition to a low-carbon economy, it would no longer finance new thermal coal mining projects. Going forward, as an outcome of the oil and gas sector review, the Group will not finance: (i) Oil / tar sands extraction projects; and (ii) Oil & gas projects within or impacting the Arctic National Wildlife Refuge area and any similar Antarctic Refuge.

- Partnering with CSIRO to establish the Australian National Outlook (ANO) Project. This business-led national forum has brought together over 50 senior leaders from Australia's leading businesses and non-government organisations to explore the trade-offs and challenges Australia may face in building a better future. The ANO project uses CSIRO's integrated modelling and qualitative research to consider economic, social and environmental outcomes for Australia to 2060. It also considers two global outlooks on climate action corresponding to 2°C and 4°C increases from pre-industrial temperature. Further information on this work is expected to be published by CSIRO late in the 2018 calendar year.
- Partnering with IAG to identify a project which will: (i) reduce exposure to natural perils; (ii) deliver commercial returns for both parties; and (iii) improve community resilience.
- Working with Climate-KIC and a number of other organisations to identify and demonstrate ways the finance sector can invest in, or lend to, climate adaptation initiatives which reduce climate risk exposure and deliver commercial returns and community resilience.
- Working with the Australian Bureau of Statistics to develop a set of green industry codes to supplement the current set of ANZSIC codes used by the Group and enable further detailed data capture of the Group's exposures to green and low carbon sectors.

In addition to the above activities, the Group has also established project agreements with:

- The Melbourne University-Australian National University Energy Transitions Hub to support development of Australian specific energy transition modelling data to complement and support the use of climate scenarios in the implementation of climate-related financial disclosures by Australian businesses and financial institutions.
- Energetics to further develop a proof of concept methodology for assessing the impact of physical climate risk on the dairy sector.

Piloting the Taskforce on Climate-related Financial Disclosure's (TCFD) recommendations

The UNEP FI TCFD project involved piloting methods developed by Acclimatise [(1)] and Oliver Wyman [(2)]. These methods use climate change scenarios to assess the 'stress' or impact of physical [(3)] and transition [(4)] risks on the Group's lending portfolio. As part of this work, the Group assessed climate risk under three scenarios for transition risk (1.5°C, 2°C and 4°C) and two scenarios (2°C and 4°C) for physical risk. This was different to the typical macro-economic stress testing generally conducted by banks.

Macro-economic stress testing typically occurs at a whole of portfolio level and is intended to estimate capital needs and inform capital management over one to five years. For climate risk, as each industry sector can respond quite differently to physical and transition risk, each pilot bank needed to examine the impacts of physical and transition risks at both a sectoral and sub-sector level.

Knowledge of individual customers was also used to calibrate and sensitivity test the models used by the Group in the analysis. The pilot work also differed from traditional stress testing because it used a longer time horizon, evaluating hypothetical scenario-based lending portfolio impacts out to 2040.

Based on previous work in the 2017 financial year, which involved heat mapping climate risk across the Group's total lending portfolio, the Group focussed its TCFD pilot activities on sectors it had identified as having potentially high to medium transition and/or physical risk. The Group chose to assess its Australian exposures in the: (i) metals and mining and power generation sectors for piloting the transition risk methodology; and (ii) agriculture and property sectors for piloting the physical risk methodology.

While working on the physical risk methodology, the Group engaged with the insurance sector to build its understanding of the role that insurance currently plays, and may play in the future, to reduce the risk of losses caused by the physical impacts of climate change. The Group also engaged with Government agencies and universities to source data and information for use in this analysis.

During the pilot, the Group found there were gaps in the climate data available and that it was not always in a format that was compatible or easily integrated with existing bank data for use in the models being piloted.

Therefore, detailed results of the Group's climate-related stress testing are not available at this early stage. The Group plans to make improvements to the process used in the pilot and to source additional Australian climate and transition data.

(1) *Acclimatise is a specialist advisory and analytics company focussed exclusively on climate risk assessment and adaptation planning.*
(2) *Oliver Wyman is the consultancy selected by UNEP FI to work with the group of banks on the transition risk pilot.*
(3) *For the purpose of this work, physical risk was defined as the risk resulting from climate variability, extreme weather events and longer term changes in climate patterns.*
(4) *For the purpose of this work, transition risk was defined as the impact of low-carbon policy and transition to low carbon technology on markets and industries.*

OTHER MATTERS (CONTINUED)

The pilot work was valuable in building the Group's internal capability and knowledge of how to use climate change scenarios and data to assess the climate change impact on industry sectors in the Group's lending portfolio. Based on this work, the Group expects to see some movement in credit ratings as a result of climate change.

The Group also anticipates the global low carbon transition will see structural changes in energy markets with fossil fuel-based energy use materially declining over time, and increased use of renewable energy, which in turn will be reflected in the make-up of the Group's loan and investment portfolios.

Currently, exposure to renewable energy represents 68.8% of the Group's power generation portfolio. Exposure to coal mining has slightly increased (by 0.1%) to 8.4% ($731 million as EaD) of the Group's resources portfolio at 30 September 2018, with a shift away from thermal coal (58% of coal exposures down from 83% at 30 September 2017) to metallurgical coal (41% of coal exposures up from 16% at 30 September 2017)[(1)].

Strategy

The Group identifies and prioritises current and future business opportunities, including those related to climate change (for example, financing clean technology). This occurs through strategic planning processes both at a Group and business line level.

The Group's climate change strategy is focussed on four key areas:

- leadership commitments
- developing climate change knowledge and insights
- supporting the Group's customers through the low-carbon transition
- investing in organisational capability to identify and respond to climate change risks and opportunities.

The Group is committed to playing an active role in addressing climate change through seeking to provide innovative products and services that help the Group's priority customer segments take advantage of low carbon opportunities. The Group's assessment of climate change-related opportunities has led to a series of commitments covering the Group's operations, as well as how the Group supports its customers through the low carbon transition. The Group's progress on key commitments includes:

- Reaching a total of: (i) $10.4 billion against the Group's commitment to provide $20 billion to support green infrastructure, capital markets and asset finance by 2025; and (ii) $12.5 billion against the Group's commitment to provide $35 billion in new mortgage lending flow for 6 Star residential housing in Australia (new dwellings and significant renovations) by 2025.
- Delivering on the Group's commitment to have arrangements in place to source 10% of its Australian electricity from renewable energy by 2018. This has been achieved via: (i) a large solar installation at the Group's primary data centre; and (ii) contracting with Pacific Hydro for Renewable Energy Certificates (RECs) from a new Victorian wind farm. The Group will receive RECs from both facilities in 2019. Achieving the Group's 10% renewable energy commitment in 2018 will help deliver the Group's longer term commitment to source 50% of its Australian electricity from renewable energy by 2025.

The Group's climate change commitments have been integrated into the Group's business strategy. The Group is using its experience in clean energy financing and natural value to provide innovative, low-carbon solutions for customers across all of the Group's key sectors and markets. Highlights in the 2018 financial reporting year have included:

- Financing of the Group's 100th renewable energy transaction since 2003 (the total at 30 September 2018 is now 114 projects and the Group's power generation lending portfolio is now 68.8% renewable energy).
- Issuing a EUR750 million NAB SDG[(2)] Green Bond (August 2018) – the largest ever green bond from an Australia issuer, and the Group's 6th green bond.

Further details on the Group's climate change governance, strategy, risk management, and metrics, targets and commitments can be found in the Group's 2018 *Sustainability Report* on NAB's website at www.nab.com.au/annualreports.

Metrics and targets

In addition to the Group's environmental financing commitment, the Group is monitoring exposure to both carbon intensive and low carbon sectors (see the Piloting the TCFD recommendations section on page 34 for further details). Some of this data is reported to investors in half year and full year results presentations, as well as in the Group's annual *Sustainability Report*. With respect to the Group's own operations, the Group continues to:

- report on progress against its science-based emissions reduction target (the Group achieved a 12% reduction in emissions in the 2018 environmental reporting year)
- install solar panels on its buildings (in the 2018 environmental reporting year the Group reached a total of 1,731 kW of installed capacity across 59 facilities)
- maintain its carbon neutral status.

Further information about the Group's Environmental Agenda, climate change strategy and commitments, greenhouse reduction and resource efficiency targets and management approach is outlined in the Group's 2018 *Annual Review* and 2018 *Sustainability Report* available online at www.nab.com.au/annualreports.

(1) *The remaining balance (1%) of coal exposures is primarily for peat cutting.*
(2) *Sustainable Development Goals.*

OTHER MATTERS (CONTINUED)

Modern Slavery

In October 2015, the UK Government's *Modern Slavery Act 2015* came into effect. The Group has prepared a *Modern Slavery Act* statement which sets out actions taken by the Group during the 2018 financial year to ensure that its business operations, and its supply chain, are free from slavery and human trafficking. It is available online at www.nab.com.au/modernslaverystatement in accordance with the *Modern Slavery Act*.

OTHER MATTERS (CONTINUED)

Past employment with external auditor

Ernst & Young has been the Group external auditor since 31 January 2005. There is no person who has acted as an officer of the Group during the 2018 financial year who has previously been a partner at Ernst & Young when that firm conducted NAB's audit.

Audit-related and Non-audit services

Ernst & Young provided audit-related and non-audit services to the Group during 2018. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2018 are as follows:

	Group
	2018
	$'000
Audit-related services	
Comfort letters	581
Regulatory	4,882
Non-regulatory	459
Total audit-related services	5,922
Non-audit services	
Project assurance and due diligence	581
Tax compliance and policy reviews	244
Risk and control assessments	128
Transfer pricing benchmarking	88
Other services	95
Total non-audit services	1,136
Total audit-related and non-audit services	7,058

As set out in *Note 33 Remuneration of external auditor* of the financial statements, total fees paid or due and payable for all services provided by Ernst & Young to the Group during 2018 amount to $21.4 million.

Ernst & Young also provides services to non-consolidated trusts of which a Group entity is trustee, manager or responsible entity and non-consolidated Group superannuation funds. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2018 total $3.9 million.

In accordance with advice received from the Board Audit Committee, the directors are satisfied that the provision of audit-related and non-audit services during the year to 30 September 2018 by Ernst & Young is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). The directors are satisfied because the Board Audit Committee or its delegate has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded that the provision of each service or type of service would not impair the independence of Ernst & Young.

A description of the Board Audit Committee's pre-approval policies and procedures is set out in the NAB 2018 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance. Details of the services provided by Ernst & Young to the Group during 2018 and the fees paid or due and payable for those services are set out in *Note 33 Remuneration of external auditor* of the financial statements. A copy of Ernst & Young's independence declaration is set out on the following page.

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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

As lead auditor for the audit of National Australia Bank Limited for the financial year ended 30 September 2018, I declare to the best of my knowledge and belief, there have been:

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

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

Ernst & Young

Ernst & Young

Sarah Lowe

Sarah Lowe
Partner
Melbourne

16 November 2018

DIRECTORS' SIGNATURES

This report of directors signed in accordance with a resolution of the directors:

Dr Kenneth R Henry
Chairman
16 November 2018

Mr Andrew G Thorburn
Group Chief Executive Officer
16 November 2018

REMUNERATION REPORT

Letter from the Remuneration Committee Chairman

Dear Shareholder,

On behalf of the Board of NAB, I present to you the 2018 Remuneration report.

Driving sustainable performance through alignment of rewards

The Board is determined to drive a focus on exceptional customer service at every level of the Group to achieve our strategy and deliver sustainable, long-term performance. Aligning employee remuneration with customer and shareholder interests assists in doing so.

We accept that traditional incentive schemes have contributed to a focus on short-term, financial outcomes in the financial services sector. This does not best serve the interests of customers, shareholders or NAB itself.

In 2018, we introduced a new Executive remuneration framework to encourage long-term decision making and drive performance that represents the interests of all NAB stakeholders. We will continue to monitor the outcomes over time to assess the effectiveness of the framework.

Across the business, 100% of our people now have a balanced scorecard (or performance plan), with compulsory customer and risk measures. Our standard Group variable reward plan now covers 97% of our people. NAB is fully compliant with the retail banking remuneration related recommendations of the Sedgwick Report, in advance of the 2020 deadline – and we will continue to make further improvements.

2018 Group performance

Our financial performance this year was solid. Good progress has been made on executing NAB's transformational strategy. However, NAB did not achieve the Board's target improvement in customer outcomes.

The Board considers that customer, risk and reputation matters, many of which have featured in the Royal Commission, should have been dealt with better and faster.

The Board considers that the Executive Leadership Team needs to do more, individually and collectively, to ensure that NAB always 'does the right thing' by its customers. This is a core NAB value. The Executive Leadership Team agree, and are fully committed to doing so. The Board believes the Group CEO and refreshed Executive Leadership Team are the right team - individually and collectively - to deliver on NAB's transformation while improving customer, risk and reputation matters.

2018 Outcomes: Group CEO, Executive Leadership Team and employees

Our Group CEO has demonstrated leadership over the past two financial years by agreeing to reductions in his overall annual 'at target' remuneration package by more than $1.7 million.

In 2018 the Board exercised its discretion to:

- Reduce the One NAB Score for employees to 80% (a 20% reduction from target).
- Reduce the One NAB Score for the Executive Leadership Team to 70% (a 30% reduction from target).

As such, variable reward across NAB was reduced by approximately $114 million from target.

In 2018 the Board exercised its judgement to provide a variable reward outcome of:

- 45.5% of target (30% of maximum) for the Group CEO. This means that the Group CEO will receive $3.03 million less (including the illustrative value of dividends) than his target total remuneration for 2018.
- 17.5% – 105% of target for members of the Executive Leadership Team.
- 60% of this variable reward is deferred in shares and restricted until 2022 to drive long-term decision making and to align with the shareholder experience.

The wide range of variable reward outcomes across the Executive Leadership Team reflects differential performance against individual performance plans (including driving transformation initiatives and addressing risk priorities), as well as varying accountability for customer, risk and reputation matters.

Differences in performance with respect to the risk component were the most important factor, with the Board reducing variable reward outcomes for individual Executives by 10% - 75% for risk matters.

The Board also exercised its discretion to forfeit deferred variable reward for a number of individuals, including former Executives, given many of the customer, risk and reputation matters pre-date the current Executive Leadership Team.

REMUNERATION REPORT (CONTINUED)

The Board expected that variable reward outcomes under the new Executive remuneration framework would vary significantly among Executives. 2018 has shown that it has.

Detail on individual remuneration outcomes for the Group CEO and Executive Leadership Team are in the report that follows.

Executive remuneration framework

The new Executive remuneration framework for the Group CEO and Executive Leadership Team is much simpler, removes complexity and encourages performance that represents the interests of all NAB stakeholders over the long-term.

The new framework makes more transparent the means by which the Board holds leaders accountable when they (or NAB) fall short of customer, shareholder and key stakeholder expectations. It also facilitates increased variable reward for when Executives perform or deliver above expectations.

It is aligned to the shareholder experience and outcomes, as 60% of variable reward is provided in dividend paying shares. These are deferred for at least four years to encourage long-term thinking and to build a significant shareholding, so Executives experience the same outcome as shareholders on a significant component of their remuneration. These deferred shares can be further deferred, clawed back or forfeited at the Board's discretion.

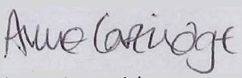
The Board’s application of the new Executive remuneration framework demonstrates an appropriate balance between being competitive internationally for talent and delivering remuneration that is aligned with customer and shareholder outcomes – both this year and into the future.

Deferred shares will be allocated based on face value, instead of fair value. This is simpler and provides transparency on the value of remuneration earned.

The new framework is compliant with the *Banking Executive Accountability Regime* (BEAR). And for Executive Leadership Team members other than the Group CEO, exceeds the level of deferral required by BEAR.

The Board is determined that Executive accountability – individual and collective – be reflected in remuneration outcomes. The 2018 remuneration outcomes demonstrate the Board exercising judgement and discretion. The 2018 remuneration outcomes appropriately balance the solid financial performance in 2018 and good progress on our transformation, offset by customer, risk and reputation matters.

We welcome your ongoing feedback.



Anne Loveridge

Remuneration Committee Chairman

REMUNERATION REPORT (CONTINUED)

Key remuneration outcomes for 2018

A much simpler Executive remuneration framework

- In 2018 NAB introduced a much simpler Executive remuneration framework for the Group CEO and Senior Executives.
- It was applied with effect from 1 October 2017.
- The new framework removes complexity and encourages performance that represents the interests of all NAB stakeholders. Its development involved engagement with investors, proxy advisors, regulators and executives. It is designed to encourage long-term decisions, to ensure that NAB delivers exceptional customer service and to align Executive variable reward with shareholder outcomes.
- The Group CEO and Senior Executives now receive remuneration in only two components. The first component is Fixed Remuneration (FR) (effectively base salary). The second component is a Variable Reward (VR). The VR is "at-risk" (i.e. not guaranteed) and is at the Board's discretion, based on the performance of the individual and the performance of the Group.

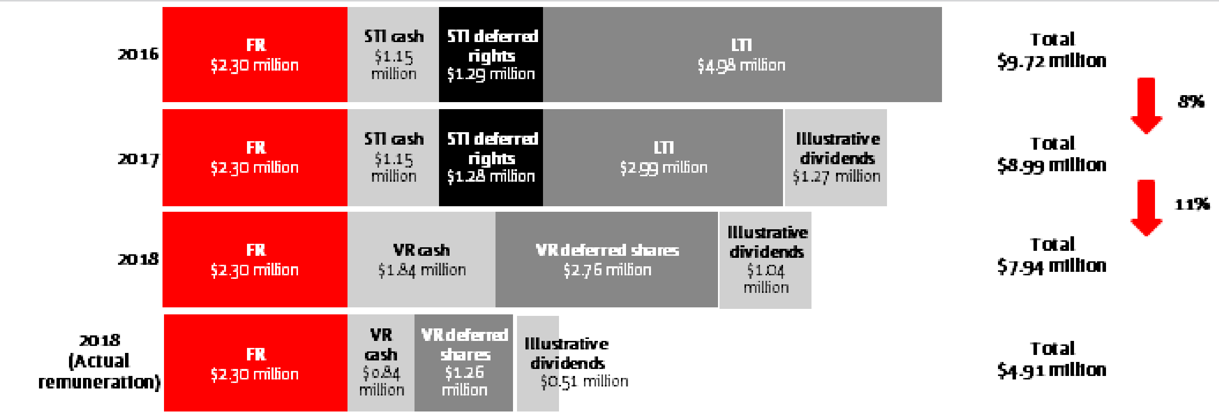
See Section 2 for further information.

Changes to the remuneration framework for other employees

- In 2018 NAB closed a number of legacy sales based reward plans. 97% of NAB's employees are now on a single variable reward plan with a similar structure to that applying to Executives.
- From 1 October 2018, NAB is fully compliant with the retail banking remuneration related recommendations of the Sedgwick Report, in advance of the 2020 deadline.

Reduction in the Group CEO's target remuneration

Over the last three years, the Board has responded to feedback from external stakeholders by reducing the Group CEO's target remuneration and increasing the minimum period of deferral applying to a portion of that remuneration. The following graph shows the Group CEO's target total remuneration from 2016 to 2018 and his actual remuneration for 2018.



All components in the graph above are shown on a face value basis for comparison purposes. The amounts are calculated as follows:

- Fixed remuneration is annualised salary and superannuation.
- Short Term Incentive (STI) cash was 50% of target STI opportunity for the relevant year (100% of FR for that year).
- 2018 VR cash is 40% of the target VR opportunity (200% of FR) and 2018 actual VR cash is 40% of 2018 actual VR.
- The STI deferred rights amounts were converted to face value using NAB's weighted average share price over the five trading days immediately preceding 11 November 2016 for 2016 and over the five trading days immediately preceding 30 September 2017 for 2017.
- The 2016 Long Term Incentive (LTI) amount shown is converted to face value using NAB's weighted average share price over the five trading days immediately preceding 10 December 2016. For 2017, the LTI was a face value allocation using NAB's weighted average share price over the five trading days immediately preceding 30 September 2017.
- The illustrative dividend amounts represent the gross value of dividends (including the value of imputation credits applying to the dividends) paid during the relevant deferral / performance period and assume (for illustrative purposes only) that NAB will continue to pay a fully franked dividend of 99 cents per share every 6 months during the relevant deferral / performance period.

Fixed remuneration

- No increase for the Group CEO.
- Increases for Anthony Healy (18.5%), Sharon Cook (12.5%), Gary Lennon (10%) and Patrick Wright (15.4%) to reflect an extension of their roles and / or to maintain alignment with the external market.
- No increase for any other Senior Executives.

Non-executive director fees

- No increase to Board or Board Committee fees in 2018.
- Board and Board Committee fees have not increased since 2016.

REMUNERATION REPORT (CONTINUED)

Key remuneration outcomes for 2018 (continued)

2018 Group performance	cash earnings (1) (2) **$5.70 billion** **14.2% decrease from 2017**	cash return on equity (cash ROE) (1) **11.7%** **230 basis points decrease from 2017**	cash return on total allocated equity (ROTAE) (1) **12.1%**	productivity savings **106.7%** **$320 million against plan of $300 million** priority segments net promoter score (3) **-15** **2 point decrease from August 2017 to August 2018**

2018 Variable Reward outcomes for Executives

- The actual VR earned by each Executive was determined based on the Group's performance, the Executive's individual performance and the Executive's target VR opportunity.
- The Board assessed the Group's performance against the performance measures above as well as a number of qualitative measures, including matters that have featured in the Royal Commission, and determined a Board adjusted 'One NAB Score' of 80% for eligible employees across the Group.
- The Board exercised its discretion to reduce the One NAB Score for Executives by a further 10%, to 70% (4). The Board took that action because it considers that the Executives need to do more, individually and collectively, to ensure that NAB always does the right thing by its customers.

Performance measure	**Weighting**	**Outcome**	**Result**
Cash earnings	25%	95% Achieved	• $5.70 billion against plan of $6.02 billion
Cash ROE	25%	96% Achieved	• 11.7% against plan of 12.2%
ROTAE	25%	95% Achieved	• 12.1% against plan of 12.7%
Transformation	25%	50% Achieved	• Productivity savings of $320 million against plan of $300 million • Average Priority Segments NPS score of -15 is below the target score of -10 (August 2017 to August 2018)
Board adjusted One NAB Score		80%	
Board adjusted One NAB Score for Executives		**70%**	

- Individual Executive responsibilities vary, as does accountability for the matters that have featured in the Royal Commission.
- The Board applied judgment in assessing each Executive's performance against their individual performance plan (including a review of risk performance) and determined an individual score for each Executive which resulted in individual variable reward outcomes in the range 17.5% to 105% of target. (4)

See Sections 2.6 and 2.9 for further information.

(1) *Information is presented on a continuing operations basis.*

(2) *Refer to the Glossary for definitions of cash earnings, cash ROE and ROTAE. A reconciliation between statutory net profit and cash earnings is included in Note 2 Segment information of the financial statements.*

(3) *Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Priority Segments NPS is a simple average of the NPS scores of four priority segments: Home Owners, Investors, Small Business ($0.1 million - <$5 million) and Medium Business ($5 million - <$50 million). The Priority Segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research. The Executives NPS 2018 targets and performance were measured over the period August 2017 to August 2018.*

(4) *Excluding Antony Cahill, who left NAB in August 2018, and Rachel Slade who was acting in the Group Executive Customer Products and Services role from August 2018 and as such was assessed on the basis of her previous role.*

REMUNERATION REPORT (CONTINUED)

Key remuneration outcomes for 2018 (continued)

Executive remuneration outcomes

The table below provides a summary of the remuneration that was awarded to Executives during 2018 while they were Executives. The amounts shown include fixed remuneration, VR to be paid in cash, VR to be provided in VR deferred shares and the number of VR deferred shares to be allocated to each Executive.

Name	Fixed remuneration[(1)] $	Actual VR cash $	Remuneration received in cash $	Actual VR deferred shares No.	Actual VR deferred shares $	Total remuneration $	Actual VR as % of VR target %
Group CEO							
Andrew Thorburn	2,282,511	837,200	3,119,711	45,450	1,255,800	4,375,511	45.5
Senior Executives							
Mike Baird	1,222,965	571,200	1,794,165	31,009	856,800	2,650,965	70.0
Sharon Cook	803,013	362,880	1,165,893	19,700	544,320	1,710,213	84.0
David Gall	1,306,557	305,760	1,612,317	16,599	458,640	2,070,957	49.0
Andrew Hagger[(2)]	1,198,529	142,800	1,341,329	-	214,200	1,555,529	17.5
Anthony Healy	1,519,003	571,200	2,090,203	31,009	856,800	2,947,003	70.0
Gary Lennon	1,104,291	418,880	1,523,171	22,740	628,320	2,151,491	56.0
Angela Mentis	1,583,239	571,200	2,154,439	31,009	856,800	3,011,239	70.0
Lorraine Murphy	763,351	285,600	1,048,951	15,504	428,400	1,477,351	52.5
Rachel Slade[(3)]	52,665	19,347	72,012	1,050	29,020	101,032	120.0
Patrick Wright	1,734,833	1,071,000	2,805,833	58,143	1,606,500	4,412,333	105.0
Former Senior Executive							
Antony Cahill	1,109,554	-	1,109,554	-	-	1,109,554	-

(1) *Fixed remuneration includes cash salary, cash value of non-monetary benefits, superannuation and other long term benefits consistent with the statutory remuneration table in Section 5.1.*

(2) *Mr Hagger ceased as KMP on 1 October 2018 and ceased employment with the Group on 14 November 2018. Details on his cessation arrangements are provided in Section 5.1. Mr Hagger will receive his VR deferred share component in cash at the end of the deferral period, payment of which will be subject to the same forfeiture, deferral extension and clawback conditions as VR deferred shares.*

(3) *Ms Slade remained on the remuneration arrangements of her prior role while acting in the Group Executive Customer Products and Services role. The amounts shown relate to the portion of 2018 that Ms Slade was acting as the Group Executive Customer Products and Services.*

Direct comparisons with the remuneration awarded in 2017 are impacted by the new Executive remuneration framework, fair value to face value adjustments, the period of time served in a Senior Executive role and actual performance outcomes. Below is a comparison of the remuneration awarded to the Group CEO in 2018 as compared to 2017 shown on a fair value basis. As outlined below, the total remuneration awarded to the Group CEO for 2018 is approximately $2.1 million (32%) lower than in 2017.

Group CEO's Remuneration Fair Value Comparison

Name		Fixed remuneration[(1)] $	Actual VR cash / STI cash $	Remuneration received in cash $	Deferred equity available in future years[(2)] $	Total remuneration awarded in year $	2018 to 2017 variation $
Andrew Thorburn	**2018**	**2,282,511**	**837,200**	**3,119,711**	**1,255,800**	**4,375,511**	**(2,072,656)**
	2017	2,300,368	977,500	3,277,868	3,170,299	6,448,167	-

(1) *Fixed remuneration includes cash salary, cash value of non-monetary benefits, superannuation and other long term benefits consistent with the statutory remuneration table in Section 5.1.*

(2) *2018 deferred equity is shown at face value which is a reasonable approximation of fair value as at 30 September 2018 as the award has no external market performance hurdles and the Executives receive dividends during the deferral period. 2017 includes STI deferred performance rights ($949,022), half of which are restricted for approximately one year and the remaining half for approximately two years, and LTI ($2,221,277) which is restricted for four years. While the 2017 LTI was allocated on a face value basis, a fair value amount has been used for comparison purposes. The fair value for the STI deferred performance rights and LTI performance rights has been calculated based on the grant date fair value of the awards as shown in Section 5.3.*

Comparing the remuneration awarded to the Senior Executives on a similar basis shows significant reductions for most of the Senior Executives in 2018 compared to 2017.

REMUNERATION REPORT (CONTINUED)

Table of contents

REMUNERATION REPORT (CONTINUED)

Section 1 - Key Management Personnel

(a) Key Management Personnel in 2018

Key Management Personnel (KMP) are the Directors of NAB and those employees of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group. KMP during 2018 were:

Non-executive directors
Chairman
Kenneth Henry
David Armstrong
Philip Chronican
Peeyush Gupta
Anne Loveridge
Geraldine McBride
Doug McKay
Ann Sherry (from 8 November 2017)
Anthony Yuen

Executives
Executive Director and Group Chief Executive Officer (Group CEO)
Andrew Thorburn
Chief Customer Officer - Corporate and Institutional Banking
Mike Baird
Chief Operating Officer
Antony Cahill (to 28 August 2018)
Chief Legal and Commercial Counsel
Sharon Cook
Chief Risk Officer
David Gall
Chief Customer Officer - Consumer and Wealth
Andrew Hagger
Chief Customer Officer - Business and Private Banking
Angela Mentis (to 31 December 2017)
Anthony Healy (from 1 January 2018)
Chief Financial Officer
Gary Lennon
Managing Director and CEO of Bank of New Zealand
Anthony Healy (to 31 December 2017)
Angela Mentis (from 1 January 2018)
Chief People Officer
Lorraine Murphy
Group Executive Customer Products and Services
Rachel Slade (acting from 28 August 2018)
Chief Technology and Operations Officer
Patrick Wright

(b) KMP changes after 30 September 2018

Changes were announced to NAB's Executive Leadership Team on 17 September 2018. The changes effective from 1 October 2018 are:

- Mike Baird commenced as Chief Customer Officer Consumer Banking and remained a KMP.
- David Gall commenced as Chief Customer Officer Corporate and Institutional Banking and remained a KMP.
- Shaun Dooley commenced as Chief Risk Officer and became a KMP.
- Rachel Slade commenced as Chief Customer Experience Officer and remained a KMP.
- Andrew Hagger ceased to be a KMP. Mr Hagger left the Group on 14 November 2018.

(c) Definitions

The following terms are used throughout this report to describe different groups of KMP.

Term	Meaning
Executives	The Group CEO and the Senior Executives (together, the Executive Leadership Team)
Senior Executives	The Executive Leadership Team, excluding the Group CEO
Employees	Employees of the Group other than the Executives

REMUNERATION REPORT (CONTINUED)

Section 2 - New Executive remuneration framework

In 2018 NAB introduced a much simpler Executive remuneration framework for the Group CEO and Senior Executives.

The Board and Remuneration Committee spent significant time over 2017 and 2018 reviewing Executive remuneration arrangements. It was the right thing to do. The new framework removes complexity and encourages performance that represents the interests of all NAB stakeholders. Its development involved engagement with investors, proxy advisors, regulators and executives. Most importantly, it responds to customer, shareholder, regulator and broader stakeholders and is designed to ensure that NAB delivers exceptional customer service.

The new framework is compliant with the BEAR.

It applies with effect from 1 October 2017 – and supersedes changes to the Group CEO's 2018 remuneration communicated in NAB's 2017 Remuneration report.

2.1. Why change the framework?

The Board is determined to drive a focus on exceptional customer service at every level of the Group to achieve NAB's strategy and deliver long term performance. If we are to win the trust of our customers and deliver sustainable performance for shareholders, evidence of customer focus needs to be considered alongside financial metrics when assessing Executive performance. Behaviour that does not put the customer first cannot provide a sustainable foundation for any business, and is not aligned with NAB's shareholders.

The four year deferral of a significant proportion of an Executive's variable reward (paid in shares) emphasises the alignment with shareholders as the deferred component accumulates to represent a significant proportion of an Executive's total remuneration (the total value of which moves in line with shareholder returns). This alignment is important, and for Senior Executives exceeds the level of deferral required by the BEAR.

The new Executive remuneration framework makes more transparent the means by which the Board holds Executives accountable when they (or NAB) fall short of customer, shareholder and community expectations.

1. It is simpler, with less remuneration awarded

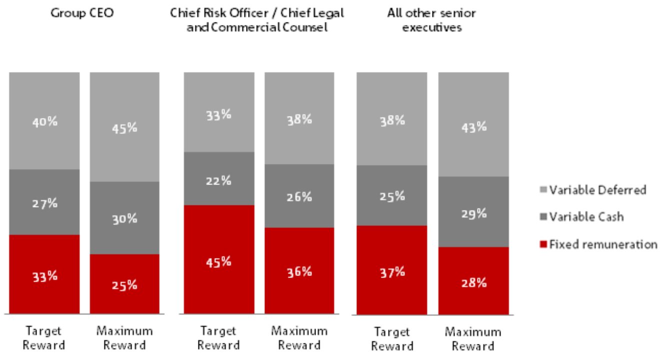
- Remuneration is provided in two components only: **fixed remuneration** and **variable reward** (replacing "short term" and "long term" incentives)
- Overall remuneration has been reduced (as illustrated by the Group CEO's target remuneration reduction of 18% over the last 2 years)
- Reduction takes into account change from fair to face value methodology, increased deferral and removal of subsequent specific performance hurdles
- Variable reward is deferred for four years and can be further deferred, clawed back or forfeited
- Using face value provides greater clarity on how the quantum of variable reward is calculated

2. Aligned to shareholders, attractive to talent

- Total remuneration packages designed to attract, retain and reward high performers to deliver sustainable customer, shareholder and business outcomes
- Reduced variable reward received in the short-term (and increased proportion in the long-term) to increase the focus on long-term decision making
- Four year deferral of 60% of variable reward builds a significant shareholding, so Executives experience the same outcome as shareholders on a significant component of their remuneration

3. It provides significant 'at-risk' remuneration

- The weighting of 'at-risk' variable reward reflects the Board's commitment to performance based reward
- The graphs below illustrate the mix of remuneration components as a proportion of total remuneration



4. It allows for greater differentiation in variable reward outcomes

- The design allows for variable reward outcomes to vary significantly among Executives
- In 2018, Executive VR outcomes were between 17.5% and 105% of VR target. This reflected differential performance and the exercise of the Board's discretion
- The Board is determined that Executive performance and accountability – individual and collective – be reflected in remuneration outcomes

REMUNERATION REPORT (CONTINUED)

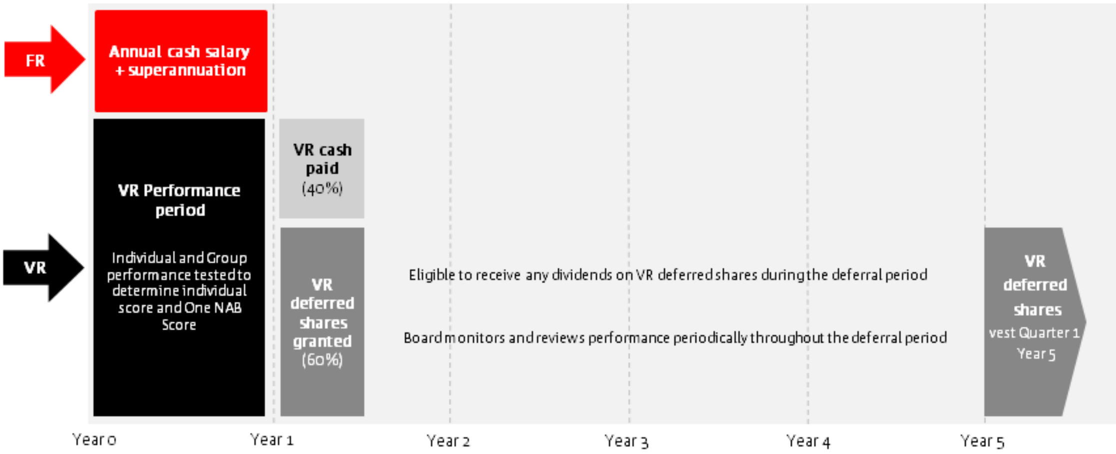
2.2. How the new framework works

The Group CEO and Senior Executives now receive their remuneration in only two components, fixed remuneration and variable reward:

Fixed Remuneration	• Annual cash salary (including superannuation) • Set with consideration of role complexity and responsibilities; capabilities; experience and knowledge; individual performance; internal and external market role relativities • Adjustments are only made to fixed remuneration to remain market competitive or to reflect changes in role scope • Benchmarked against market data from a peer group of 20 ASX-listed companies, including NAB's major competitors

Variable Reward	• The Group CEO and Senior Executives are eligible to receive a single variable reward (replacing "short term" and "long term" incentives)
	• 40% of the variable reward will be paid in cash
	• 60% will be awarded in NAB shares (VR deferred shares)
	• The VR deferred shares will be subject to a minimum four year deferral period. However, the Board has discretion to extend the deferral period, forfeit VR deferred shares during the deferral period on resignation, dismissal for cause, failure to meet threshold conduct requirements or if the Board determines that it should exercise its discretion or clawback VR deferred shares
	• During the deferral period the Executives:
	  • will receive any dividends paid on their VR deferred shares
	  • will not be able to sell or otherwise deal with their VR deferred shares

2.3 Timeline for the allocations of rewards under the new framework



Deferral of a significant portion of variable reward for four years ensures decisions are made for the longer term and aligns Executive remuneration with the shareholder experience while providing the ability for the Board to adjust variable reward if required (refer Section 3.4) and supports Executive retention.

2.4 How an Executive's VR outcome is calculated

Each Executive's VR outcome for a financial year is determined in accordance with the following formula. The formula considers both the Group's performance and the Executive's individual performance over the financial year along with the Executive's target VR opportunity:

The Executive's target VR opportunity ($)	**X**	**The Executive's individual score (which reflects the Executive's performance over the financial year)**	**X**	**One NAB Score (which reflects the Group's performance over the financial year)**

An Executive's actual VR outcome can be higher or lower than their target VR opportunity, but will not exceed their maximum VR opportunity, and will depend on the Executive's individual score and the One NAB Score for the financial year, both of which are determined by the Board.

The Board retains the discretion to adjust any VR outcome as it sees fit. The Board used its discretion and applied further reductions in 2018.

REMUNERATION REPORT (CONTINUED)

2.5 Target VR opportunities for 2018

Each Executive is given a target VR opportunity and a maximum VR opportunity based on their FR and their role. The opportunities for 2018 are outlined in the table below as a percentage of their FR.

If an Executive or the Group performs above expectation, then the Executive may receive a VR outcome above target.

Similarly, if the Executive or the Group fails to meet the expectations set at the beginning of the financial year, then the Executive's VR outcome may be less than target, possibly zero.

Title	Target VR opportunity (% of FR)	Maximum VR opportunity (% of FR)
Group CEO	200%	300%
Chief Risk Officer and Chief Legal and Commercial Counsel	120%	180%
All other Senior Executives	170%	255%

Rachel Slade remained on the remuneration arrangements of her prior role while acting as the Group Executive Customer Products and Services.

2.6 One NAB Score - Group Performance

(a) Overview

The One NAB Score is a measure of the Group's performance over the financial year.

The Board assesses the Group's performance against certain performance measures determined by the Board at the beginning of the financial year. These include financial and non-financial measures and are reviewed annually by the Board. The final One NAB Score is subject to Board discretion, taking into account qualitative matters (such as the quality of the financial results, management of risk, people and reputation, shareholder expectations, and sustainability and the environment).

For 2018 the Board determined the One NAB Score based on four equally weighted performance measures:

Cash earnings	**Cash return on equity (Cash ROE)**	**Return on total allocated equity (ROTAE)**	**Business transformation (as evidenced by improvement in NPS and productivity savings)**

The Board adjusted One NAB Score was 80% for 2018
The Board adjusted the One NAB Score for Executives downwards to 70% for 2018

The Group's performance was solid but below target. Good progress was made executing NAB's transformational strategy and the Group met the transformation productivity performance measure as set by the Board (see table in Section 2.6(b)). However, NAB did not achieve the Board's target increase in customer outcomes (as measured by NPS) and costs were incurred in connection with the resolution of certain customer-related remediation programs.

Considering the Group's performance against the stated performance measures as well as a number of qualitative measures, including matters that have featured in the Royal Commission, the Board determined a One NAB Score for 2018 of 80%.

The table below shows the Group's annual financial performance over the last five years and its impact on shareholder value, taking into account dividend payments, share price changes, and other capital adjustments during the period.

Financial performance measure	2018	2017	2016	2015	2014
Basic earnings per share (cents)	**215.6**	228.2	242.4	271.7	214.1
Cash earnings ($m)	**5,702**	6,642	6,483	6,222	5,055
Dividends paid per share	**$1.98**	$1.98	$1.98	$1.98	$1.96
Company share price at start of year	**$31.50**	$27.87	$29.98	$32.54	$34.32
Company share price at end of year	**$27.81**	$31.50	$27.87	$29.98	$32.54
Absolute Total Shareholder Return (TSR) for the year	**(5.4%)**	20.1%	(0.7%)	(2.0%)	0.4%

REMUNERATION REPORT (CONTINUED)

(b) Reduction for Executives following the exercise of Board discretion

For 2018 for the Group CEO and Senior Executives [1] the Board determined the One NAB Score should be further reduced by 10% to 70%.

The Board took that action because it considers that the Group CEO and Senior Executives must be held the most accountable and need to do more, individually and collectively, to ensure NAB does the right thing by its customers. This is a core NAB value. In respect of 2018, the Board considered that customer conduct issues faced by NAB, many of which have featured in the Royal Commission, should have been dealt with better and faster. The Board expects the Group CEO and Senior Executives to lead the Group in pursuit of NAB's vision to be Australia's leading bank, trusted by customers for exceptional service. The Group CEO and Senior Executives agree, and are fully committed to doing so.

Performance measure	Weighting	Outcome	Result
Cash earnings	25%	95% Achieved	• $5.70 billion against plan of $6.02 billion
Cash ROE	25%	96% Achieved	• 11.7% against plan of 12.2%
ROTAE	25%	95% Achieved	• 12.1% against plan of 12.7%
Transformation	25%	50% Achieved	• Productivity savings of $320 million against plan of $300 million • Average Priority Segments NPS score of -15 is below the target score of -10 (August 2017 to August 2018)
Board adjusted One NAB Score		80%	
Board adjusted One NAB Score for Executives		**70%**	

2.7 Changes to how the One NAB Score is calculated for 2019

The Board has approved changes to the way in which the One NAB Score will be calculated for 2019 to drive simplicity, transparency and improve risk sensitivity further. The Board considers the changes will deliver a greater emphasis on risk performance and more variability in the One NAB Score. The score remains based on quantitative metrics, including key financial and transformation measures and will remain subject to Board discretion.

The changes are to the performance measures, which will be cash earnings (25%), risk adjusted ROTAE (50%) and transformation (25%). Similar to 2018, the transformation performance measure will consist of key metrics that will track the success of the Group's transformation strategy.

2.8 Individual scores

At the start of the financial year, each Executive receives an individual performance plan which sets out the Board's expectations for the Executive over that year in certain key areas. Each Executive's individual performance plan complements their accountabilities as set out in their respective BEAR accountability statements. The key areas covered by the individual performance plans are those that the Board considers to be important to NAB's strategy to deliver sustainable customer, shareholder and business outcomes.

For 2018, there were five key areas in Executive individual performance plans which were each given an equal weighting:

Customer outcomes	Risk	People management	Delivery of strategy	Financial performance
20%	**20%**	**20%**	**20%**	**20%**

At the end of each financial year, the Board assesses an Executive's performance against the Executive's individual performance plan. The Board also considers the extent to which the Executive has demonstrated NAB's values and behaviours over the financial year which are a key part of achieving NAB's vision and strategy.

(1) Excluding Rachel Slade who remained on her previous remuneration, including variable reward arrangements, while acting as Group Executive Customer Products and Services.

REMUNERATION REPORT (CONTINUED)

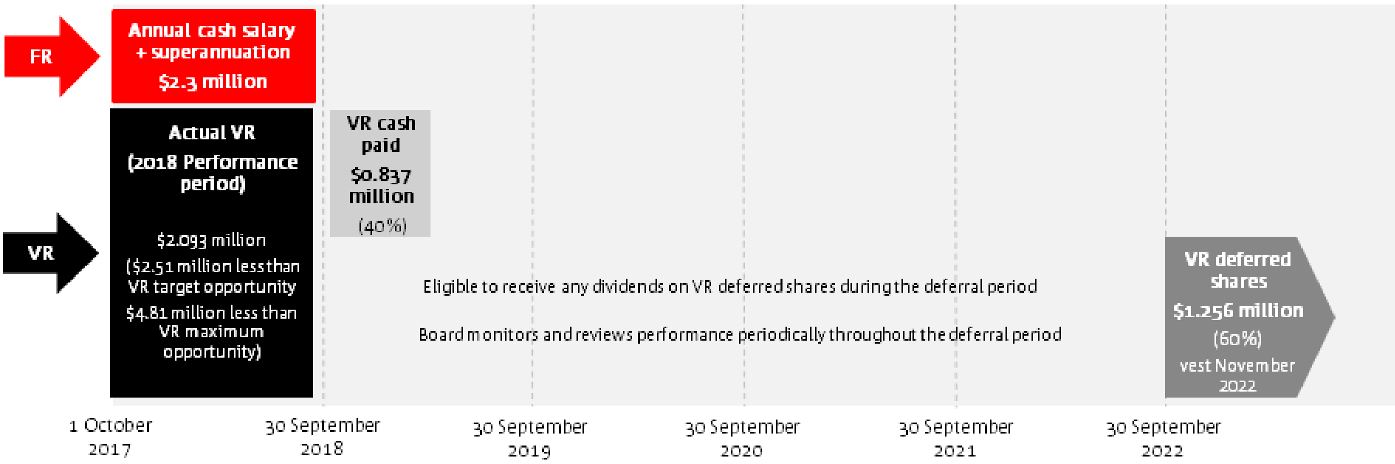
Following that assessment, each Executive is given an individual performance rating using a rating scale consisting of Not Achieved, Partially Achieved, Achieved, Highly Achieved and Outstanding. The performance rating is then translated into an individual score that is used to calculate the Executive’s VR outcome for the financial year.

2.9 2018 VR outcomes for Executives

(a) Group CEO's VR outcome

The figures below outline the Group CEO’s actual VR outcome for 2018 and how that outcome compares to his target and maximum VR opportunities.

Name	Target VR $	Actual VR $	Actual VR as % of target %	Actual VR as % of maximum %	VR cash $	VR deferred shares $
Andrew Thorburn	4,600,000	2,093,000	45.5	30.3	837,200	1,255,800



(b) Group CEO's performance rating and individual score

The Board considered that the Group CEO had performed strongly in a difficult environment, especially in: leading the transformation; pursuing growth opportunities in both the business bank and the corporate and institutional bank; building a customer-centred culture; developing business leaders; actively managing succession planning; simplifying the product offering; leading the business transformation to strengthen the Group’s technology; and, reducing risk for customers and shareholders. Were these the only factors relevant to an assessment of the Group CEO’s performance, the Board would have considered it appropriate to award him an individual score toward the top of the range for an Achieved outcome.

However, the Group CEO has accepted accountability for NAB’s failure to fix mistakes quickly, remediate customers promptly and set things right. These failures have impacted NAB's reputation. In addition, certain matters emerged in the course of an investigation into an alleged fraud on NAB by a former employee and supplier to NAB. These included certain control failings and breaches of policy in the Office of the CEO, and a small number of unintended breaches of policy by the Group CEO. These matters have been resolved and closed to the Board's satisfaction. The Board and Group CEO take all of these matters seriously and consider that it is appropriate that the Group CEO’s individual score be reduced to 65%. Multiplying this individual score by the Board adjusted One NAB score of 70% generates a variable reward outcome of 45.5% of VR target.

For 2018, this outcome means the Group CEO was awarded $2.51 million (36.3%) less than his target total remuneration. Including illustrative dividends (as described on page 41), this equates to $3.03 million (38.2%) less than his target total remuneration.

The following provides a summary of the Board's assessment of the Group CEO's performance for 2018.

REMUNERATION REPORT (CONTINUED)

Measures	Outcomes
Customer • Embed customer culture • Priority segments NPS	• Launched the Group's new purpose which has customer at the centre • Customer journeys delivering uplift in operational NPS • Rural and regional strategy implementation - first mover on actions to support farmers experiencing drought (farm management debt offsets, removal of default interest charges) and pausing branch closures in drought areas • Home loan standard variable rate strategy - rewarding customers for loyalty • Average Priority Segments NPS score of -15 is below the target score of -10 (August 2017 to August 2018) • Poor customer outcomes featured in the Royal Commission
Financial performance • Cash earnings • Cash ROE • Productivity and investment benefits • Balance sheet strength	• Achieved \$5.70 billion cash earnings against plan of \$6.02 billion • Revenue was higher, with good lending growth and stable margins • Productivity savings of \$320 million • Capital - clear path to unquestionably strong • Margins well managed • Asset quality sound
Leadership and people • Talent management • Build banker capability • Employee engagement • Gender diversity metrics	• Significant investment in people capability in business bank, risk and operations; building a world class technology team • Key Senior Executive talent appointments as a result of strong succession planning • Focus on leadership capability including launching the new E.P.I.C. leadership framework • Employee engagement score of 54% was below the Group's 2018 objective and not at top quartile, however an improvement on mid-year pulse check of 48% • 2018 gender diversity metrics not met, however progressing towards 2020 targets
Delivery of strategy • Strategy milestones	• Completed year 1 of a 3 year transformation agenda, including meeting year 1 simplification targets • Completion of year 1 of a 3 year technology and people strategy to drive improved customer experience • Best business bank strategy is clear and SME loan growth more than double major bank peer average • Wealth strategy clear; divestment plan for MLC and more focussed offering through JBWere, Private Bank and nabtrade
Risk • Adherence to risk frameworks	• Role modelled and driven a strong tone from the top on lifting and improving risk management standard and outcomes • Progress on risk management priorities and uplift in risk framework adequacy and operating effectiveness • Further improvements required in controls, remediation and reputation, faster remediation required of matters which featured in the Royal Commission
Values • Demonstration of NAB's values and behaviours	• Board assessed as consistently demonstrating leadership, values and behaviours
Overall rating	Achieved

REMUNERATION REPORT (CONTINUED)

(c) Senior Executives' VR outcomes

The table below outlines the actual VR outcome for each of the Senior Executives for 2018 and how that outcome compares to their target and maximum VR opportunities. The variance in the individual scores reflects the differences in each Senior Executive's performance in the key areas of their individual performance plan.

Name	Target VR $	Actual VR $	Actual VR as % of target %	Actual VR as % of maximum %	VR cash $	VR deferred shares $
Mike Baird	2,040,000	1,428,000	70.0	46.7	571,200	856,800
Sharon Cook	1,080,000	907,200	84.0	56.0	362,880	544,320
David Gall	1,560,000	764,400	49.0	32.7	305,760	458,640
Andrew Hagger [1]	2,040,000	357,000	17.5	11.7	142,800	214,200
Anthony Healy	2,040,000	1,428,000	70.0	46.7	571,200	856,800
Gary Lennon	1,870,000	1,047,200	56.0	37.3	418,880	628,320
Angela Mentis	2,040,000	1,428,000	70.0	46.7	571,200	856,800
Lorraine Murphy	1,360,000	714,000	52.5	35.0	285,600	428,400
Rachel Slade [2]	40,306	48,367	120.0	80.0	19,347	29,020
Patrick Wright	2,550,000	2,677,500	105.0	70.0	1,071,000	1,606,500
Former Senior Executive						
Antony Cahill	-	-	-	-	-	-

(1) *Mr Hagger, who ceased employment with NAB on 14 November 2018, will receive his VR deferred share component in cash at the end of the deferral period, payment of which will be subject to the same forfeiture, deferral extension and clawback conditions as VR deferred shares.*

(2) *Ms Slade remained on the remuneration arrangements of her prior role while acting as the Group Executive Customer Products and Services. The amounts shown relate to the portion of 2018 that Ms Slade was KMP.*

The individual outcomes for Senior Executives varied between 17.5% and 105% (excluding Antony Cahill and Rachel Slade) reflecting their individual performance against customer outcomes, Group and divisional financial performance, people management outcomes, delivery of strategy and risk. The Board also made a number of reductions to the individual scores of certain Executives for customer, risk and reputation matters.

2.10 VR deferred share allocation methodology

The number of VR deferred shares to be allocated to the Group CEO (subject to shareholder approval) and other Senior Executives was determined using a face value methodology. Specifically, it was determined by dividing 60% of the Executive's actual VR outcome by $27.63 (being NAB's weighted average share price over the period from 24 September to 28 September 2018 (inclusive)). The actual value an Executive receives from the VR deferred shares allocated to them will depend on the number of VR deferred shares that vest at the end of the four year deferral period, the NAB share price at that time and the dividends paid by NAB during the deferral period.

2.11 Mandatory shareholding requirement

Executives are required to accumulate and retain NAB equity [1] over a five year period from commencement as KMP to an amount equal to:

- Two times fixed remuneration for the Group CEO.
- One times fixed remuneration for the other Senior Executives.

The new Executive remuneration framework sets the level of deferral (at target) so that the shareholding requirement will be exceeded and maintained within two years. If the Executives were to receive 100% of their VR target each year for four years, the amount of VR deferred shares received as a factor of their current annualised fixed remuneration (subject to share price movement) would be:

- 4.8 times for the Group CEO.
- 2.9 times for the Chief Risk Officer and Chief Legal and Commercial Counsel.
- 4.1 times for all other Senior Executives.

(1) *Includes NAB shares held by the Executive, equity received under NAB's employee equity plans that have vested and are retained by the Executive, unvested deferred STI performance rights and VR deferred shares.*

REMUNERATION REPORT (CONTINUED)

2.12 Realised remuneration

The following table is a voluntary non-statutory disclosure that shows the realised remuneration each Executive received (or was entitled to receive) during 2018. The amounts shown include fixed remuneration, cash VR to be paid in respect of 2018, the previous years' deferred STI which vested, vested LTI and other equity awards that vested during 2018 (including the 2012 LTI which partially vested in December 2017 after partially achieving the relative TSR performance hurdles). The value of equity awards is calculated using NAB's closing share price on the vesting or forfeiture or lapsing date. Not all amounts have been prepared in accordance with accounting standards and this information differs to the statutory remuneration table (Section 5.1) which shows the expense for vested and unvested awards in accordance with accounting standards.

	2018 related remuneration			Prior years' related remuneration				
Name	Fixed remuneration[(1)] $	VR cash[(2)] $	Total $	Deferred STI vested[(3)] $	LTI vested[(4)] $	Other awards vested / paid[(5)] $	Total remuneration realised $	Equity forfeited / lapsed[(6)] $
Group CEO								
Andrew Thorburn	2,282,511	837,200	3,119,711	1,670,292	1,412,502	-	6,202,505	(752,048)
Senior Executives								
Mike Baird	1,222,965	571,200	1,794,165	-	-	-	1,794,165	-
Sharon Cook	803,013	362,880	1,165,893	-	-	-	1,165,893	-
David Gall	1,306,557	305,760	1,612,317	452,510	337,275	-	2,402,102	(179,535)
Andrew Hagger[(7)]	1,198,529	142,800	1,341,329	816,715	1,329,400	-	3,487,444	(707,810)
Anthony Healy	1,519,003	571,200	2,090,203	587,547	197,935	1,101	2,876,786	(105,310)
Gary Lennon	1,104,291	418,880	1,523,171	307,852	381,274	123,677	2,335,974	(202,961)
Angela Mentis	1,583,239	571,200	2,154,439	680,287	293,276	557,189	3,685,191	(156,140)
Lorraine Murphy	763,351	285,600	1,048,951	215,484	-	298,228	1,562,663	-
Rachel Slade (for part year)	52,665	19,347	72,012	-	-	-	72,012	-
Patrick Wright	1,734,833	1,071,000	2,805,833	-	-	698,852	3,504,685	-
Former Senior Executive								
Antony Cahill (for part year)	1,109,554	-	1,109,554	742,462	281,575	557,189	2,690,780	(7,715,952)

(1) *Fixed remuneration includes cash salary, cash value of non-monetary benefits, superannuation and other long term benefits consistent with the statutory remuneration table in Section 5.1.*

(2) *The cash component of the VR provided in respect of 2018 is scheduled to be paid on 12 December 2018 in Australia and 28 November 2018 in NZ.*

(3) *Deferred STI amounts from the 2015 Tranche 2 and 2016 Tranche 1 STI program fully vested in November 2017.*

(4) *The value of vested 2012 LTI performance rights. The 2012 LTI performance rights partially vested in December 2017. Further details are provided in Section 4.*

(5) *Amounts related to awards which vested or were paid during 2018. This includes equity-based programs from prior years (other than the deferred STI equity referred to in (3) and LTI performance rights referred to in (4)). The amounts include Customer Advocacy Incentive (CAI) shares provided to Mr Lennon in March 2016, General Employee shares granted in December 2014 to Mr Healy which fully vested in December 2017, retention awards provided to Mr Cahill and Ms Mentis in 2016 that fully vested in July 2018, the final Tranche of Ms Murphy's commencement award which fully vested in September 2018 and the third tranche of Mr Wright's commencement award which was paid in March 2018. Dividends received by Executives during 2018 for any unvested share awards are also included. The amount is calculated for the 2017 final dividend of 99 cents (record date of 10 November 2017) and the 2018 interim dividend of 99 cents (record date of 16 May 2018). Both dividends were fully franked.*

(6) *The amounts include the value of lapsed 2012 LTI performance rights for eligible Executives, LTI performance rights that were forfeited on cessation of employment for Mr Hagger, and STI performance rights and LTI performance rights for Mr Cahill that were forfeited on resignation.*

(7) *Mr Hagger ceased as KMP on 1 October 2018 and ceased employment with the Group on 14 November 2018. On cessation of employment, Mr Hagger received a termination payment (which was a retrenchment payment in accordance with his contract).*

REMUNERATION REPORT (CONTINUED)

Section 3 - Remuneration governance and frameworks

3.1 The role of the Remuneration Committee

The Committee is responsible for reviewing, assessing and recommending to the Board, remuneration policies and practices that encourage good customer outcomes, sustainable enterprise outcomes, enhance long term shareholder returns, nurture a strong culture and are in accordance with applicable regulatory requirements and global regulatory trends. The Committee considers the interests of all stakeholders in fulfilling its responsibilities.

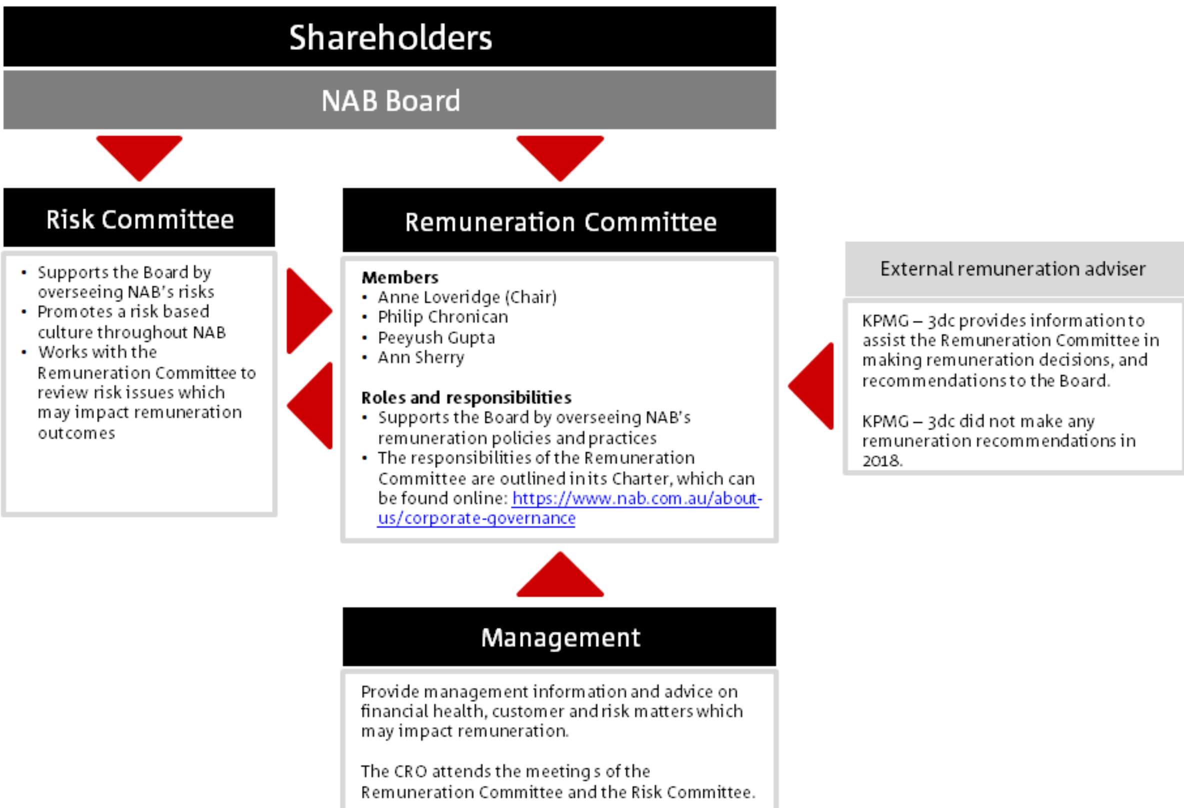
3.2 Activities of the Committee in 2018

In 2018, the activities of the Committee included:

- Completing its strategic review of NAB's Executive remuneration framework and practices. The changes comply with laws and regulations, including the BEAR.
- Approving the closure of a number of legacy sales based reward plans and achieving compliance from 1 October 2018 with the retail banking remuneration related recommendations of the Sedgwick Report, in advance of the 2020 requirement.
- Overseeing consequence management outcomes for conduct, regulatory and prudential breaches and incidents of behaviour that are inconsistent with the Group's risk appetite, desired culture, Code of Conduct or values.
- Considering individual risk management performance and impact on individual variable reward outcomes. In respect of the 2018 year, the Board exercised its discretion and forfeited deferred variable reward for a number of individuals, including former Executives as a result of customer, risk and reputation matters.
- Considering Group remuneration outcome recommendations (with assistance from the Board Risk Committee) to the Board taking into account the overall health of the Group's financial result against the risk management framework, risk appetite and qualitative factors. Considerations included prudential compliance, breaches and incidents, timeliness of escalation and management of events and breaches. Customer, risk and reputational impacts were also considered. This resulted in the Board determining a One NAB Score of 80% for the Group, further reduced to 70% for Executives.
- Considering select strategic people topics as part of an expansion of the Committee's remit in 2018. The expansion was to facilitate a deeper focus on the Group's People Strategy during a time of significant transformation.

3.3. The remuneration governance framework

The remuneration governance framework is illustrated in the diagram below.



REMUNERATION REPORT (CONTINUED)

3.4 Remuneration plan governance

- *Board discretion:* The Board has absolute discretion to adjust Rewards [(1)] down, or to zero, where appropriate (including as a result of Malus [(2)]). This includes varying the vesting of Rewards. The Board's considerations may include the Group's financial performance, the quality of financial results, management of risks and shareholder expectations. Board discretion may apply to any employee across the Group, by division, by role or individual, depending on circumstances.
- *Clawback:* Clawback (recovery of paid and vested Rewards) may apply to Executives, other accountable persons and some UK employees. This ability to reduce the vesting outcome for VR deferred shares along with the assessment undertaken when determining an Executive's VR outcome effectively replace the performance conditions applying to rewards allocated under the previous Executive remuneration framework. At the end of the deferral period, the Executive can deal with their VR deferred shares provided those VR deferred shares have vested and not been forfeited.
- *Resignation:* If an employee resigns, any unvested Rewards will generally lapse or be forfeited, unless the Board determines otherwise. Any unvested Rewards that are retained will remain subject to the original performance criteria and timetable.
- *Forfeiture:* An Executive's VR deferred shares will be forfeited if:
  - The Board determines that some or all of the VR deferred shares will be forfeited on cessation of employment with the Group and in other circumstances (other than cessation due to retrenchment or redundancy).
  - Tthe Board determines that the VR deferred shares will be forfeited following the occurrence of a 'Malus Event' [(2)].
  - The Board determines that the VR deferred shares were granted in error.
  - Any other circumstances requiring forfeiture of the VR deferred shares under the Group Remuneration Policy occur.
- *Conduct standards*: Vesting and grant of all forms of Reward are subject to review for compliance with NAB's Code of Conduct (NAB's Code of Conduct is found online at: www.nab.com.au).
- *Insider trading and hedging policy*: Directors and employees are prohibited from protecting the value of their equity Rewards by hedging. Further details are available in the Group Securities Trading Policy, found online at: www.nab.com.au.
- *Change of control*: The Board generally has discretion to determine the treatment of unvested Rewards at the time a change of control event occurs. Vesting of the VR deferred shares will not be automatic and the Board will retain discretion in relation to the vesting outcome including absolute discretion to forfeit all VR deferred shares.

3.5 Remuneration frameworks for Employees

During 2018, a number of legacy sales based reward plans were closed. From 1 October 2018, NAB is fully compliant with the retail banking remuneration related recommendations of the Sedgwick Report, in advance of the 2020 requirement.

There were no other changes to the remuneration frameworks governing Employees of the Group for 2018. Those frameworks are designed to support the Group's strategy through building a strong culture that encourages the right behaviours to deliver sustainable customer, shareholder and business outcomes. They do that by ensuring that the reward mix for the majority of employees contains a variable component and that there are appropriate consequences for an employee's reward where the employee has engaged in inappropriate risk taking or demonstrated poor behaviours.

Consistent with the assessment for Executives (but without the additional 10% reduction applied by the Board), a One NAB Score of 80% has been applied. An assessment of each employee's individual performance is also undertaken.

For 2019, the Group STI applying to eligible Employees of the Group has been renamed the Group VR plan.

In 2019 under that plan, the variable reward for eligible Employees will be based on the One NAB Score and the performance measures to be assessed to determine that score will be cash earnings (25%), risk adjusted ROTAE (50%) and Transformation (25%) (see Section 2.7 for more detail). Under that plan the quantum and length of deferral will be increased for any employee who earns a VR of more than $50,000. Employees who earn a VR of $50,000 or less will not have any deferral applied.

The variable rewards of Employees are generally set at lower multiples of fixed remuneration than Executives.

(1) *In this Section, the term 'Reward' includes VR deferred shares to be granted to Executives, deferred STI awards granted to other employees of the Group and deferred STI and LTI awards granted in previous years.*

(2) *Such as where the Executive has failed to comply with their accountability obligations under BEAR, has engaged in fraud, dishonesty, gross misconduct, behaviour that may negatively impact the Group's long-term financial soundness or prudential standing or behaviour that brings NAB into disrepute, or has materially breached a representation, warranty, undertaking or obligation to the Group.*

REMUNERATION REPORT (CONTINUED)

Section 4 - Testing of LTI performance rights granted in previous years

The table below shows the performance of the Group against the LTI performance hurdles for the 2012 and 2013 LTI awards which were tested during 2018. Both awards had two TSR performance hurdles. Vesting for both hurdles is based on NAB's TSR result against two TSR peer groups. The vesting schedule is: 50% vesting at the 50th percentile on a straight line scale up to 100% vesting at the 75th percentile.

The performance hurdles for the 2012 LTI, measured over a 5 year performance period, were subject to a second test during 2018. NAB's TSR over the performance period was 80.94%. Accordingly, the performance hurdles were partially achieved resulting in partial vesting of the award as shown in the table below.

The performance hurdles for the 2013 LTI, measured over a 4 year performance period, were not achieved and therefore none of the 2013 LTI performance rights vested. NAB's TSR over the performance period was 22.56%. The 2013 LTI performance rights are subject to a final test over a five year performance period (11 November 2013 to 12 November 2018) in November 2018.

Details of the LTI awards granted in respect of previous years, including 2012 and 2013, can be found in NAB's previous remuneration reports which are available at www.nab.com.au/about-us/shareholder-centre/financial-disclosuresandreporting/annual-reports-and-presentations.

LTI Award	Performance hurdle	Performance period	Percentile ranking	% of rights vested	% of rights lapsed	% of rights remaining
2012	TSR relative to S&P/ASX50 (50%) [(1)]	12/11/2012 to 12/11/2017	58th	66.2	33.8	-
2012	TSR relative to Top Financial Services (50%) [(2)]	12/11/2012 to 12/11/2017	57th	64.2	35.8	-
2013	TSR relative to S&P/ASX50 (50%) [(3)]	11/11/2013 to 11/11/2017	42nd	-	-	100
2013	TSR relative to Top Financial Services (50%) [(2)]	11/11/2013 to 11/11/2017	29th	-	-	100

(1) *The peer group for this performance hurdle is the Standard & Poors / ASX capitalisation index comprised of the 50 largest companies by market capitalisation in Australia as at 1 October 2012. The following companies were de-listed during the performance period and have been excluded from the performance hurdle test: Asciano, Novion Property Group (formerly CFS Retail PR. TST. Group), Toll Holdings, Twenty-First Century Fox CDI.'B' (formerly News Corp CDI. 'B'), Westfield Group and Westfield Retail Trust. Under the terms of the award, there is no substitution for de-listed companies.*

(2) *The peer group for this performance hurdle is: AMP Limited, Australia and New Zealand Banking Group Limited, Bank of Queensland Limited, Bendigo & Adelaide Bank Limited, Commonwealth Bank of Australia, Suncorp Group Limited and Westpac Banking Corporation.*

(3) *The peer group for this performance hurdle is the Standard & Poors / ASX capitalisation index comprised of the 50 largest companies by market capitalisation in Australia as at 1 October 2013. The following companies were de-listed during the performance period and have been excluded from the performance hurdle test: Asciano, Novion Property Group (formerly CFS Retail PR. TST. Group), Toll Holdings, Twenty-First Century Fox CDI.'B' (formerly News Corp CDI. 'B'), Westfield Group and Westfield Retail Trust. Under the terms of the award, there is no substitution for de-listed companies.*

REMUNERATION REPORT (CONTINUED)

Section 5 - Executive statutory remuneration disclosures

5.1. Statutory remuneration

The following table has been prepared in accordance with Australian Accounting Standards and Section 300A of the *Corporations Act 2001* (Cth). The table shows details of the nature and amount of each element of remuneration paid or awarded to Executives for services provided during the year while they were Executives (including STI amounts in respect of performance during the year which are paid following the end of the year). This table is different to the realised remuneration table in Section 2.12 which is a voluntary non-statutory disclosure showing remuneration realised in 2018. In addition to the remuneration benefits below, NAB paid an insurance premium for a contract insuring all Executives as officers. It is not possible to allocate the benefit of this premium between individuals. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the premium paid.

		Short-term benefits			Post-employment benefits		Equity-based benefits			
Name		Cash salary[(1)] $	VR Cash[(2)] $	Non-monetary[(3)] $	Superannuation[(4)] $	Other long-term benefits[(5)] $	Shares[(6)] $	Rights[(7)] $	Other remuneration[(8)] $	Total[(9)] $
Group CEO										
Andrew Thorburn	**2018**	**2,181,408**	**837,200**	**40,247**	**21,318**	**39,538**	**244,314**	**3,026,411**	**-**	**6,390,436**
	2017	2,216,311	977,500	15,530	30,646	37,881	42	3,366,164	-	6,644,074
Senior Executives										
Mike Baird	**2018**	**1,169,141**	**571,200**	**28,216**	**21,225**	**4,383**	**166,689**	**325,422**	**-**	**2,286,276**
	2017	535,766	227,754	6,931	13,358	2,184	-	100,852	-	886,845
Sharon Cook	**2018**	**768,874**	**362,880**	**7,968**	**22,883**	**3,288**	**105,897**	**144,304**	**-**	**1,416,094**
	2017	375,843	92,779	4,691	12,383	1,483	-	44,995	-	532,174
David Gall	**2018**	**1,252,717**	**305,760**	**4,992**	**26,943**	**21,905**	**89,228**	**744,540**	**-**	**2,446,085**
	2017	1,229,156	331,500	231,723	27,862	20,860	-	822,379	-	2,663,480
Andrew Hagger	**2018**	**1,148,935**	**357,000**	**8,149**	**21,225**	**20,220**	**-**	**1,400,345**	**752,351**	**3,708,225**
	2017	1,154,125	480,000	25,363	20,756	19,255	217,661	1,540,183	-	3,457,343
Anthony Healy	**2018**	**1,400,464**	**571,200**	**76,280**	**37,876**	**4,383**	**167,402**	**1,080,658**	**-**	**3,338,263**
	2017	897,146	582,075	26,225	70,411	13,020	946	1,183,827	-	2,773,650
Gary Lennon	**2018**	**1,009,047**	**418,880**	**54,123**	**22,758**	**18,363**	**135,088**	**672,204**	**-**	**2,330,463**
	2017	981,472	425,000	5,479	20,756	14,592	73,809	711,212	-	2,232,320
Angela Mentis	**2018**	**1,089,781**	**571,200**	**384,931**	**81,165**	**27,362**	**382,232**	**1,035,857**	**-**	**3,572,528**
	2017	1,100,800	660,000	81,419	20,756	19,413	258,508	1,150,227	-	3,291,123
Lorraine Murphy	**2018**	**730,027**	**285,600**	**7,852**	**21,225**	**4,247**	**198,454**	**462,183**	**-**	**1,709,588**
	2017	752,193	340,000	165,534	21,000	4,840	313,090	441,885	-	2,038,542
Rachel Slade (for part year)	**2018**	**51,028**	**19,347**	**9**	**1,379**	**249**	**31,158**	**13,914**	**-**	**117,084**
Patrick Wright	**2018**	**1,272,377**	**1,071,000**	**456,977**	**-**	**5,479**	**312,542**	**520,834**	**34,990**	**3,674,199**
	2017	647,019	552,500	267,490	-	2,293	-	159,946	2,796,294	4,425,542

REMUNERATION REPORT (CONTINUED)

		Short-term benefits			Post-employment benefits		Equity-based benefits			
Name		Cash salary[1] $	VR Cash[2] $	Non-monetary[3] $	Superannuation[4] $	Other long-term benefits[5] $	Shares[6] $	Rights [7] $	Other remuneration [8] $	Total[9] $
Former Senior Executives										
Antony Cahill (for part year) [10]	**2018**	**1,071,159**	**-**	**7,733**	**18,299**	**12,363**	**215,305**	**(1,416,372)**	**-**	**(91,513)**
	2017	1,190,793	510,000	24,045	20,756	14,222	258,508	1,099,387	-	3,117,711
Cathryn Carver (for part year)	2017	358,361	472,555	-	13,510	1,925	739,796	-	-	1,586,147
Matthew Lawrance (for part year)	2017	316,390	235,002	55	13,493	6,047	304,437	43,750	-	919,174
Total Senior Executives	**2018**	**13,144,958**	**5,371,267**	**1,077,477**	**296,296**	**161,780**	**2,048,309**	**8,010,300**	**787,341**	**30,897,728**
Total Senior Executives	2017	11,755,375	5,886,665	854,485	285,687	158,015	2,166,797	10,664,807	2,796,294	34,568,125

(1) *Includes cash allowances and short-term compensated absences, such as annual leave entitlements accrued.*

(2) *The VR cash received in respect of 2018 is scheduled to be paid on 12 December 2018 in Australia and 28 November 2018 in NZ. The cash component of STI received in respect of 2017 was paid in full during 2018 for all Executives as previously disclosed, with no adjustment. The amount shown for Mr Hagger includes deferred VR cash (expected to be paid in November 2022) in respect of 2018, which remains subject to the same terms and conditions as VR deferred shares.*

(3) *Includes any motor vehicle benefits, parking, relocation costs, travel for family members, gifts and other benefits. For international assignees this may include the provision of health fund benefits and personal tax advice. Any related fringe benefits tax is included. The 2017 comparative amount has been adjusted for Mr Thorburn, Mr Hagger, Mr Healy, Ms Mentis, Mr Wright and Mr Cahill to include prior year benefits.*

(4) *Includes company contributions to superannuation and allocations by employees made by way of salary sacrifice of fixed remuneration. Superannuation contributions are not required to be paid to individuals based in NZ but such payments may be made as part of cash salary.*

(5) *Includes long service leave entitlements accrued based on an actuarial calculation.*

(6) *The amount included for share awards is the grant date fair value, amortised on a straight line basis over the vesting period. Refer to the Glossary of the Financial report for an explanation of the fair value basis used to determine equity-based benefits. Amounts shown for 2018 include portions of shares allocated under employee programs as follows:*
a) General Employee shares granted in December 2014, March 2016, December 2016, December 2017 and to be granted in December 2018, to eligible Executives at the relevant offer time.
b) CAI shares granted to Mr Lennon in March 2016 for performance in his previous role. The shares were subject to achievement of 2017 NPS targets and service conditions which have been fully met and fully vested In December 2017.
c) Commencement shares allocated to Ms Murphy in May 2016 with 35% vested in September 2016, 32.5% vested in September 2017 and 32.5% vested in September 2018. The shares were subject to performance and service hurdles.
d) Retention shares granted in August 2016 to Mr Cahill and Ms Mentis which were restricted for approximately 24 months, subject to performance and service conditions. The shares fully vested in July 2018.
e) VR deferred shares to be granted in December 2018 in respect of performance in 2018. The shares are restricted for approximately 4 years, subject to performance and service conditions. Further detail is provided in Section 2.

(7) *The amount included for performance rights is the grant date fair value, amortised on a straight line basis over the expected vesting period. Refer to the Glossary of the Financial report for an explanation of fair value basis used to determine equity-based remuneration. Amounts shown for 2018 include portions of performance rights allocated under employee programs, as shown below:*
a) Deferred STI performance rights granted in March 2016 in respect of performance in 2015, February 2017 in respect of performance in 2016, and December 2017 in respect of performance in 2017. The performance rights are granted with half of each grant restricted for approximately 14 months after the end of the performance year and the remaining half for approximately 26 months after the end of the performance year.
b) Previous LTI performance rights granted in December 2013, December 2014 (and for the Group CEO in February 2015), December 2015 (and for the Group CEO in March 2016), December 2016 (and for the Group CEO in February 2017) and in December 2017 under the Group's previous LTI program.

(8) *On cessation of employment, Mr Hagger received a termination payment (which was a retrenchment payment in accordance with his contract) and retained equity received under NAB's employee equity plans in accordance with the relevant terms and conditions of those plans. That equity remains subject to the relevant performance hurdles and restriction periods. Under AASB 2 Share-based Payments, the value of retained equity including performance awards (deferred STI and LTI) has been fully accounted for on cessation and included in Mr Hagger's 2018 remuneration. On separation, a number of LTI performance rights held by Mr Hagger have been forfeited based on Mr Hagger's period of service during the performance periods for those rights and the associated expense has been reversed. Mr Hagger will receive his VR deferred share component in cash at the end of the deferral period, payment of which will be subject to the same forfeiture, deferral extension and clawback conditions as VR deferred shares. These arrangements are consistent with the Group's policy and practice in such circumstances. The amount shown for Mr Wright reflects exchange rate movements related to his commencement award as disclosed in NAB's 2017 Remuneration report.*

(9) *The percentage of 2018 total remuneration related to performance-based remuneration was: Mr Thorburn 64%, Mr Baird 47%, Mr Cahill 8%, Ms Cook 43%, Mr Gall 47%, Mr Hagger 47%, Mr Healy 55%, Mr Lennon 54%, Ms Mentis 56%, Ms Murphy 55%, Ms Slade 55%, Mr Wright 54%.*

(10) *A number of unvested awards were fully forfeited and the associated expense reversed on Mr Cahill's resignation in accordance with the terms and conditions of the relevant awards .*

REMUNERATION REPORT (CONTINUED)

5.2 Value of shares and performance rights

The following table shows the value of shares and performance rights that were granted by NAB, forfeited, lapsed or vested for each Executive during the year to 30 September 2018. A performance right is a right to receive one NAB share subject to the satisfaction of the relevant performance conditions. The value shown is the full accounting value to be expensed over the vesting period, which is generally longer than the current year. Executives did not pay any amounts for performance rights that vested and were exercised during 2018. The number of shares provided when the rights exercise is on a one to one basis. There are no amounts unpaid on any of the shares exercised. There have been no changes to the terms and conditions of these awards, or any other awards since the awards were granted. All performance rights that vest are automatically exercised when they vest.

For the awards allocated during the year to 30 September 2018, the maximum number of shares or performance rights that may vest is shown for each Executive. The maximum value of the equity awards is the number of shares or performance rights subject to NAB's share price at the time of vesting. The minimum number of shares of performance rights and the value of the equity awards is zero if the equity is fully forfeited or lapsed.

Name		Granted[(1)] No.	Grant date	Forfeited / lapsed[(2)] No.	Vested[(3)] No.	Granted $	Forfeited / lapsed[(4)] $	Vested $
Group CEO								
Andrew Thorburn	LTI rights	72,650	12/12/2012	(25,330)	47,320	-	(752,048)	471,085
	Deferred STI rights	27,284	9/03/2016	-	27,284	-	-	660,000
	Deferred STI rights	28,348	22/02/2017	-	28,348	-	-	689,990
	Deferred STI rights	34,807	19/12/2017	-	-	949,022	-	-
	LTI rights	95,252	19/12/2017	-	-	2,221,277	-	-
Senior Executives								
Mike Baird	Deferred STI rights	8,111	19/12/2017	-	-	221,149	-	-
	LTI rights	63,695	19/12/2017	-	-	940,138	-	-
Sharon Cook	Deferred STI rights	3,304	19/12/2017	-	-	90,085	-	-
	LTI rights	29,725	19/12/2017	-	-	438,741	-	-
David Gall	LTI rights	17,346	12/12/2012	(6,047)	11,299	-	(179,535)	112,485
	Deferred STI rights	6,201	9/03/2016	-	6,201	-	-	150,002
	Deferred STI rights	8,875	22/02/2017	-	8,875	-	-	216,018
	Deferred STI rights	11,805	19/12/2017	-	-	321,867	-	-
	LTI rights	48,302	19/12/2017	-	-	712,940	-	-
Andrew Hagger[(5)]	LTI rights	68,376	12/12/2012	(23,840)	44,536	-	(707,810)	443,370
	Deferred STI rights	13,643	9/03/2016	-	13,643	-	-	330,024
	Deferred STI rights	13,558	22/02/2017	-	13,558	-	-	330,002
	Deferred STI rights	17,093	19/12/2017	-	-	466,045	-	-
	LTI rights	63,695	19/12/2017	-	-	940,138	-	-
Anthony Healy	LTI rights	10,178	12/12/2012	(3,547)	6,631	-	(105,310)	66,014
	General employee shares	30	10/12/2014	-	30	-	-	972
	Deferred STI rights	9,400	9/03/2016	-	9,400	-	-	227,386
	Deferred STI rights	10,170	22/02/2017	-	10,170	-	-	247,538
	General employee shares	30	13/12/2017	-	-	886	-	-
	Deferred STI rights	20,720	19/12/2017	-	-	564,936	-	-
	LTI rights	53,710	19/12/2017	-	-	792,760	-	-
Gary Lennon	LTI rights	19,609	12/12/2012	(6,836)	12,773	-	(202,961)	127,159
	CAI shares	4,026	15/03/2016	-	4,026	-	-	100,006
	Deferred STI rights	10,272	22/02/2017	-	10,272	-	-	250,020
	Deferred STI rights	15,135	19/12/2017	-	-	412,659	-	-
	LTI rights	53,080	19/12/2017	-	-	783,461	-	-
Angela Mentis	LTI rights	15,084	12/12/2012	(5,259)	9,825	-	(156,140)	97,811
	Deferred STI rights	10,335	9/03/2016	-	10,335	-	-	250,004
	Retention shares	18,383	24/08/2016	-	18,383	-	-	500,018
	Deferred STI rights	12,326	22/02/2017	-	12,326	-	-	300,015
	Deferred STI rights	23,503	19/12/2017	-	-	640,815	-	-
	LTI rights	63,695	19/12/2017	-	-	940,138	-	-

REMUNERATION REPORT (CONTINUED)

Name		Granted[1] No.	Grant date	Forfeited / lapsed [2] No.	Vested [3] No.	Granted $	Forfeited / lapsed[4] $	Vested $
Lorraine Murphy	Commencement shares	10,011	11/05/2016	-	10,011	-	-	275,002
	Deferred STI rights	7,190	22/02/2017	-	7,190	-	-	175,005
	Deferred STI rights	12,108	19/12/2017	-	-	330,127	-	-
	LTI rights	42,464	19/12/2017	-	-	626,774	-	-
Rachel Slade	Commencement shares	12,462	22/02/2017	-	12,462	-	-	391,307
	General employee shares	30	13/12/2017	-	-	886	-	-
	Deferred STI shares	2,883	21/02/2018	-	-	87,499	-	-
	Transformation rights	17,248	21/02/2018	-	-	422,748	-	-
Patrick Wright	Deferred STI rights	19,675	19/12/2017	-	-	536,444	-	-
	LTI rights	69,003	19/12/2017	-	-	1,018,482	-	-
Former Senior Executive								
Antony Cahill	LTI rights	14,481	12/12/2012	(5,048)	9,433	-	(149,875)	93,908
	LTI rights	9,362	11/12/2013	(9,362)	-	-	(256,051)	-
	LTI rights	11,134	10/12/2014	(11,134)	-	-	(304,515)	-
	LTI rights	103,895	9/12/2015	(103,895)	-	-	(2,841,528)	-
	Deferred STI rights	12,402	9/03/2016	-	12,402	-	-	300,004
	Retention shares	18,383	24/08/2016	-	18,383	-	-	500,018
	LTI rights	57,123	14/12/2016	(57,123)	-	-	(1,562,314)	-
	Deferred STI rights	25,595	22/02/2017	(13,269)	12,326	-	(362,907)	300,015
	Deferred STI rights	18,161	19/12/2017	(18,161)	-	495,165	(496,703)	-
	LTI rights	63,695	19/12/2017	(63,695)	-	940,138	(1,742,058)	-

(1) *The following securities have been granted during 2018:*
a) General Employee Share Offer granted to Mr Healy and Ms Slade in December 2017.
b) LTI performance rights allocated in December 2017. The total fair value of the award at allocation is disclosed in the table above. The allocation fair value for each LTI tranche is shown in Section 5.3. The number of performance rights awarded to Executives was based on an end September 2017 fair value of $23.55 for tranche 1 (the maximum weighted average share price (WASP) discount did not apply) and $15.70 after applying the maximum WASP discount (fair value of $12.88) for tranche 2 in accordance with the Board's previous policy to limit the number of LTI performance rights allocated to Executives. The end September 2017 fair values were based on the WASP at which NAB shares were traded on the ASX in the five trading days from 25 to 29 September 2017 inclusive, of $31.39. The same WASP was used to determine the number of LTI performance rights awarded to the Group CEO which were allocated on a face value basis.
c) Deferred STI performance rights allocated in December 2017 and deferred STI shares granted in February 2018 (in respect of 2017). The performance rights are granted with half restricted for approximately 14 months after the end of the performance year and the remaining half for approximately 26 months after the end of the performance year. The deferred STI shares are restricted for approximately 14 months after the end of the performance year.
d) Transformation performance rights granted to Ms Slade in February 2018. The performance rights are restricted for approximately 36 months and are subject to achievement of NPS and cost saving targets and service conditions.

(2) *The following securities have forfeited or lapsed during 2018:*
a) LTI performance rights allocated in December 2012 partially lapsed in December 2017. Further details are provided in Section 4.
b) Mr Cahill's unvested deferred STI performance rights and LTI performance rights were forfeited on resignation.

(3) *The following securities have vested during 2018:*
a) General Employee Share Offer granted to Mr Healy in December 2014, fully vested in December 2017.
b) 2015 Tranche 2 deferred STI performance rights allocated in March 2016, fully vested in November 2017.
c) 2016 Tranche 1 deferred STI performance rights allocated in February 2017, fully vested in November 2017.
d) LTI performance rights allocated in December 2012 partially vested in December 2017. Further details are provided in Section 4.
e) CAI shares granted to Mr Lennon in respect of his previous role in March 2016 fully vested in December 2017.
f) Retention shares allocated to Mr Cahill and Ms Mentis in August 2016 fully vested in July 2018.
g) Tranche 3 Commencement award shares allocated to Ms Murphy in May 2016 fully vested in September 2017.
h) Commencement shares allocated to Ms Slade in February 2017 with 33% vested in October 2017. A further 24% and 9% is scheduled to vest in October 2018 and October 2019 respectively, subject to performance and service hurdles. The remaining 34% vested in July 2017.

(4) *Calculated using NAB's closing share price on the forfeiture / lapsing date.*

(5) *Mr Hagger ceased as KMP on 1 October 2018 and ceased employment with the Group on 14 November 2018. On cessation of employment, Mr Hagger retained equity received under NAB's employee equity plans in accordance with the relevant terms and conditions of those plans. That equity remains subject to the relevant performance hurdles and restriction periods. On separation, a number of LTI performance rights held by Mr Hagger have been forfeited based on Mr Hagger's period of service during the performance periods for those rights. These arrangements are consistent with the Group's policy and practice in such circumstances.*

REMUNERATION REPORT (CONTINUED)

5.3 Determining the value of equity remuneration

The fair value of shares and performance rights (at grant date) is set out below for grants provided to Executives during 2018. The determination of the fair value considers factors such as whether the grant has non-market or market-based performance hurdles, the expected volatility of NAB's share price, the risk-free interest rate and the expected dividend yield on NAB shares for the life of the grant. This may result in different fair values for awards granted on the same day. Each performance right entitles the holder to receive one NAB share on vesting.

The grant date fair value of shares and performance rights is amortised on a straight line basis over the vesting period and included in each Executive's disclosed remuneration in accordance with statutory accounting requirements. No performance options have been granted during the year. Shares and performance rights granted during 2018 have a zero exercise price.

		Shares		Performance rights			
Type of allocation	Grant date	Fair value $	Restriction period end	Grant share price[1] $	Fair value $	Exercise period From	Exercise period To[2]
General Employee Share Offer	13 December 2017	29.54	13 December 2020				
Deferred Short-Term Incentive	19 December 2017			29.85	28.17	15 November 2018	15 February 2019
Deferred Short-Term Incentive	19 December 2017			29.85	26.42	15 November 2019	15 February 2020
Long-Term Incentive [3]	19 December 2017			29.85	23.10	20 December 2021	15 March 2022
Long-Term Incentive [4]	19 December 2017			29.85	9.20	20 December 2021	15 March 2022
Long-Term Incentive [3] [5]	19 December 2017			29.85	33.66	20 December 2021	15 March 2022
Long-Term Incentive [4] [5]	19 December 2017			29.85	12.98	20 December 2021	15 March 2022
Transformation Reward [6]	21 February 2018			29.38	24.51	20 December 2020	15 March 2021
Transformation Reward [7]	21 February 2018			29.38	24.51	20 December 2020	15 March 2021

(1) *The Grant share price is NAB's closing share price at the date of valuation (grant date of the relevant award). The Grant share price was used to determine the fair value.*
(2) *The end of the exercise period for each performance rights allocation is also the expiry date.*
(3) *Relates to the 2017 LTI cash ROE growth performance hurdle.*
(4) *Relates to the 2017 LTI relative TSR performance hurdle.*
(5) *The Group CEO's LTI was allocated on a 'face value' basis using a 5 day weighted average share price over the five trading days up to 30 September 2017. The fair values for the Group CEO's LTI allocation include an estimation of the cash amount equivalent to the gross value of any dividends (including payment for the value of imputation credits which applied to the dividends) which may be paid to the Group CEO on any LTI performance rights that may vest. Further detail on the Group CEO's LTI performance rights are available in NAB's 2017 Remuneration Report. The Group CEO's allocation was approved by shareholders at the December 2017 AGM.*
(6) *Relates to the 2018 Transformation Reward NPS target.*
(7) *Relates to the 2018 Transformation Reward cost savings target.*

REMUNERATION REPORT (CONTINUED)

5.4. Performance rights holdings

No performance options or performance rights (i.e. entitlements to NAB shares) are granted to the Group CEO's or Senior Executives' related parties. No performance options (i.e. right requiring payment of a subscription price on vesting) are currently held by the Group CEO or Senior Executives. At 30 September 2018, no performance rights held by the Group CEO or Senior Executives were: (i) vested and exercisable; nor (ii) vested but not exercisable.

Name	Balance at beginning of year[1] No.	Granted during year as remuneration No.	Exercised during year No.	Forfeited / lapsed or expired during year No.	Balance at end of year[2] No.	Vested during year No.
Group CEO						
Andrew Thorburn	881,674	130,059	(102,952)	(25,330)	883,451	102,952
Senior Executives						
Mike Baird	-	71,806	-	-	71,806	-
Sharon Cook	-	33,029	-	-	33,029	-
David Gall	194,317	60,107	(26,375)	(6,047)	222,002	26,375
Andrew Hagger	413,918	80,788	(71,737)	(23,840)	399,129	71,737
Anthony Healy	260,363	74,430	(26,201)	(3,547)	305,045	26,201
Gary Lennon	127,316	68,215	(23,045)	(6,836)	165,650	23,045
Angela Mentis	235,118	87,198	(32,486)	(5,259)	284,571	32,486
Lorraine Murphy	54,917	54,572	(7,190)	-	102,299	7,190
Rachel Slade	-	17,248	-	-	17,248	-
Patrick Wright	-	88,678	-	-	88,678	-
Former Senior Executive						
Antony Cahill	233,992	81,856	(34,161)	(281,687)	-	34,161

(1) *Balance may include performance rights granted prior to individuals becoming KMP. For Executives who became KMP during 2018, the balance is at the date they became KMP.*

(2) *For former Executives, the balance is as at the date they cease being KMP.*

REMUNERATION REPORT (CONTINUED)

5.5. Executives' share ownership

The number of NAB shares held (directly and nominally) by each Executive or their related parties (their close family members or any entity they, or their close family members, control, jointly control or significantly influence) are set out below:

Name	Balance at beginning of year[(1)] No.	Granted during year as remuneration No.	Received during year on exercise of performance rights No.	Other changes during year No.	Balance at end of year[(2)] No.
Group CEO					
Andrew Thorburn	155,124	-	102,952	15,524	273,600
Senior Executives					
Mike Baird	-	-	-	2,000	2,000
Sharon Cook	-	-	-	2,000	2,000
David Gall	91,269	-	26,375	(24,375)	93,269
Andrew Hagger	25,976	-	71,737	(76,457)	21,256
Anthony Healy	42,642	30	26,201	2,142	71,015
Gary Lennon	51,765	-	23,045	2,000	76,810
Angela Mentis	28,383	-	32,486	-	60,869
Lorraine Murphy	32,941	-	7,190	2,029	42,160
Rachel Slade	40,536	-	-	-	40,536
Patrick Wright	-	-	-	2,000	2,000
Former Senior Executive					
Antony Cahill	30,957	-	34,161	(32,161)	32,957

(1) *Balance may include shares held prior to individuals becoming KMP. For Executives who became KMP during 2018, the balance is at the date they became KMP. Some opening balances have been restated to include changes in related party shares.*

(2) *For former Executives, the balance is as at the date they cease being KMP. The balance does not include 2018 deferred shares referred to in Section 2.9 (a) and (c) which are scheduled to be allocated to Executives in February 2019 and will be disclosed in NAB's 2019 Remuneration report.*

There are no other holdings or transactions involving equity instruments, other than equity-based compensation, with Executives or their related parties.

REMUNERATION REPORT (CONTINUED)

5.6. Executive contract terms

All Executives are employed on contracts with no fixed term. The following table shows the position and contract terms for individuals who were Executives as at 30 September 2018.

		Termination arrangements [1]		
		Notice period (weeks)		Termination payment[2]
Name	Position	Senior Executive	Company	$
Group CEO				
Andrew Thorburn	Executive Director and Group Chief Executive Officer (Group CEO)	26	26	1,045,455
Senior Executives				
Mike Baird	Chief Customer Officer - Corporate and Institutional Banking	2	26	545,455
Sharon Cook	Chief Legal and Commercial Counsel	2	26	409,091
David Gall	Chief Risk Officer	4	26	590,909
Andrew Hagger [3]	Chief Customer Officer - Consumer and Wealth	4	26	545,455
Anthony Healy	Chief Customer Officer - Business and Private Banking	4	26	545,455
Gary Lennon	Chief Financial Officer	4	26	500,000
Angela Mentis	Managing Director and CEO of Bank of New Zealand	4	26	545,455
Lorraine Murphy	Chief People Officer	2	26	363,636
Rachel Slade	Acting Group Executive Customer Products and Services	2	26	256,994
Patrick Wright	Chief Technology and Operations Officer	2	26	681,818

(1) *Employment may be terminated by either the Executive or NAB giving the applicable notice. Employee notice periods reflect a commercial decision to not spend on excessive termination payments when NAB has strong succession plans in place.*

(2) *Calculated as the company notice period multiplied by either the current annualised fixed remuneration or Total Remuneration Package (TRP) (fixed remuneration less employer superannuation). These are paid, subject to compliance with the law, if NAB terminates the Executive's employment agreement on notice and without cause, and makes payment in lieu of notice. Termination payments are not generally paid on resignation, summary termination or unsatisfactory performance, although the Board may determine exceptions to this. The retention or forfeiture of shares and performance rights on cessation of employment depends on applicable law and the terms and conditions of each grant including Board discretion. The amount shown is the termination payment payable, based on the Executive's current fixed remuneration or TRP if NAB were to give notice. The value does not include any value for equity holdings which may be retained, or other statutory payments that would be payable on termination.*

(3) *Mr Hagger ceased as KMP on 1 October 2018 and ceased employment with the Group on 14 November 2018. On cessation of employment, Mr Hagger received a termination payment (which was a retrenchment payment in accordance with his contract) and retained equity received under NAB's employee equity plans in accordance with the relevant terms and conditions of those plans. That equity remains subject to the relevant performance hurdles and restriction periods. Under AASB 2 Share-based Payments, the value of retained equity including performance awards (deferred STI and LTI) has been fully accounted for on cessation and included in Mr Hagger's 2018 remuneration. On separation, a number of LTI performance rights held by Mr Hagger have been forfeited based on Mr Hagger's period of service during the performance periods for those rights and the associated expense has been reversed. Mr Hagger will receive his VR deferred share component in cash at the end of the deferral period, payment of which will be subject to the same forfeiture, deferral extension and clawback conditions as VR deferred shares. These arrangements are consistent with the Group's policy and practice in such circumstances.*

REMUNERATION REPORT (CONTINUED)

Section 6 - Non-executive director remuneration

6.1. Fee policy and pool

Non-executive directors receive fees to recognise their contribution to the work of the Board. Additional fees are paid, where applicable, for serving on Board Committees, on Boards of controlled entities and internal advisory boards. Fees include NAB's compulsory contributions to superannuation. To ensure independence, non-executive directors are not paid any performance or reward related remuneration.

The total amount of non-executive directors' remuneration is capped at a maximum aggregate fee pool that is approved by shareholders. The current aggregate fee pool of $4.5 million per annum was approved by shareholders at NAB's 2008 Annual General Meeting. The total Board and Committee fees, including superannuation, paid to non-executive directors in 2018 is within the approved aggregate fee pool.

Non-executive director fees are generally reviewed annually, including against fee levels paid to board members of other major Australian corporations. As a result of the 2018 fee review, the Board decided not to increase non-executive director Board or Committee fees.

The following table shows the annual fees paid to the Chairman and non-executive directors on the Board, and to non-executive directors who participate on Board committees.

	Chairman ($pa)	Non-executive Director ($pa)
Board	790,000	230,000
Audit Committee	65,000	32,500
Risk Committee	60,000	30,000
Remuneration Committee	55,000	27,500
Nomination & Governance Committee	-	10,000

REMUNERATION REPORT (CONTINUED)

6.2. Statutory remuneration

The fees paid to the non-executive directors in relation to the 2018 financial year are set out below:

		Short-term benefits	Post-employment benefits	
		Cash salary and fees[(1)]	Superannuation[(2)]	Total
Name		$	$	$
Non-executive directors				
Kenneth Henry (Chairman)	**2018**	**769,831**	**20,169**	**790,000**
	2017	770,276	19,724	790,000
David Armstrong	**2018**	**304,831**	**20,169**	**325,000**
	2017	304,746	19,724	324,470
Philip Chronican [(3)]	**2018**	**414,486**	**20,169**	**434,655**
	2017	403,904	19,724	423,628
Peeyush Gupta [(4)]	**2018**	**659,059**	**20,169**	**679,228**
	2017	629,841	19,724	649,565
Anne Loveridge	**2018**	**274,831**	**20,169**	**295,000**
	2017	275,276	19,724	295,000
Geraldine McBride	**2018**	**242,331**	**20,169**	**262,500**
	2017	235,882	19,724	255,606
Doug McKay [(5)]	**2018**	**482,047**	**20,169**	**502,216**
	2017	358,572	146,166	504,738
Ann Sherry	**2018**	**212,707**	**18,458**	**231,165**
Anthony Yuen	**2018**	**286,604**	**5,896**	**292,500**
	2017	286,393	6,107	292,500
Former non-executive directors				
Daniel Gilbert (for part year)	2017	55,551	4,904	60,455
Jillian Segal (for part year)	2017	56,081	4,904	60,985
Total	**2018**	**3,646,727**	**165,537**	**3,812,264**
Total	2017	3,376,522	280,425	3,656,947

(1) *The portion of fees in connection with their roles, duties and responsibilities as a non-executive director, and includes attendance at meetings of the Board, and of Board committees and boards of controlled entities, received as cash. No non-monetary benefits were provided to the non-executive directors during 2018.*

(2) *Reflects compulsory company contributions to superannuation and, where applicable, includes additional superannuation contributions made by NAB, in lieu of payment of fees, at the election of the non-executive director.*

(3) *Mr Chronican received director fees of $117,155 in his capacity as a director on the board of Bank of New Zealand, which were paid in NZD.*

(4) *Mr Gupta received director fees of $381,728 in his capacity as a director on the board of a number of the Group subsidiaries, including as a director of BNZ Life. The director fees relating to BNZ Life were paid in NZD.*

(5) *Mr McKay received director fees of $229,716 in his capacity as Chairman of Bank of New Zealand, which were paid in NZD.*

6.3. Minimum shareholding policy

Non-executive directors are required to hold, within five years of their appointment, NAB ordinary shares to the value of the annual base fee for non-executive directors. To meet the minimum requirement, non-executive directors must:

- hold at least 2,000 NAB ordinary shares within six months of their appointment; and
- acquire NAB ordinary shares to the value of at least 20% of the annual base fee for non-executive directors each year until the minimum holding requirement is met.

REMUNERATION REPORT (CONTINUED)

6.4. Non-executive directors' share ownership

The number of NAB shares held (directly and nominally) by each non-executive director of NAB and the Group or their related parties (their close family members or any entity they, or their close family members, control, jointly control or significantly influence) are set out below. No performance options or performance rights are granted to non-executive directors or their related parties.

Name	Balance at beginning of year[(1)] No.	Acquired No.	Other changes during year No.	Balance at end of year No.
Non-executive directors				
Kenneth Henry	8,360	2,000	-	10,360
David Armstrong	13,765	3,124	-	16,889
Philip Chronican	30,000	1,000	-	31,000
Peeyush Gupta	6,480	1,000	-	7,480
Anne Loveridge	9,000	1,000	-	10,000
Geraldine McBride	4,960	1,000	-	5,960
Doug McKay	8,000	2,000	-	10,000
Ann Sherry	7,831	-	-	7,831
Anthony Yuen	10,464	2,000	-	12,464

(1) *Balance may include shares held prior to individuals becoming KMP. For senior executives who became KMP during 2018 the balance is as at the date they became KMP.*

6.5. Other equity instrument holdings

Holdings and transactions involving equity instruments, other than equity-based compensations, with non-executive directors or their related parties and NAB and the Group are set out below:

Name	Balance at beginning of year No.	Changes during year No.	Balance at end of year No.
National Income Securities			
Philip Chronican	982	-	982

REMUNERATION REPORT (CONTINUED)

Section 7 - Loans and other transactions

7.1. Loans

Loans made to directors of NAB are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans to Executives may be made on similar terms and conditions generally available to other employees of the Group. Loans to KMP of NAB and the Group may be subject to restrictions under applicable laws and regulations including the *Corporations Act 2001* (Cth). The opening balance is 1 October and closing balance is 30 September, or the date of commencement or cessation of a KMP.

Aggregated loans to KMP and their related parties

NAB and the Group	Terms and conditions	Balance at beginning of year	Interest charged	Interest not charged	Write-off	Balance at end of year
KMP [1]	Normal	12,844,123	404,875	-	-	9,661,506
	Employee	1,994,890	88,447	-	-	1,982,362
Other related parties [2]	Normal	7,105,655	282,867	-	-	8,426,740

[1] *The aggregated loan balance at the end of the year includes loans issued to 14 KMP.*
[2] *Includes KMP's close family members or any entity they or their close family members control, jointly control or significantly influence.*

Aggregated loans to KMP and their related parties above $100,000

NAB and the Group	Terms and conditions	Balance at beginning of year $	Interest charged[1] $	Interest not charged $	Write-off $	Balance at end of year $	KMP highest indebtedness during year[2] $
Group CEO							
Andrew Thorburn	Normal	-	4,843	-	-	319,592	-
Senior Executives							
Mike Baird	Normal	4,520,806	191,478	-	-	4,378,704	3,788,726
Sharon Cook	Normal	1,215,250	41,641	-	-	1,166,404	1,215,250
David Gall	Normal	5,966,992	169,185	-	-	5,807,978	2,482,520
Anthony Healy	Normal	1,963,221	28,282	-	-	-	-
Gary Lennon	Employee	988,759	40,409	-	-	947,359	1,111,428
Angela Mentis	Normal	2,050,826	55,205	-	-	1,291	1,788,570
Lorraine Murphy	Normal	2,453,479	83,735	-	-	2,393,105	2,456,036
Patrick Wright	Normal	14,549	101,918	-	-	3,512,652	-
Non-executive directors							
David Armstrong	Normal	-	7,491	-	-	366,026	-
Geraldine McBride	Normal	1,151,661	2,219	-	-	28,609	1,172,392
Doug McKay	Normal	-	-	-	-	890	460,300
Former Senior Executive							
Antony Cahill	Employee	980,000	47,436	-	-	982,468	1,191,052
	Normal	594,092	1,722	-	-	87,948	-

[1] *The interest charged may include the impact of interest offset facilities.*
[2] *Represents aggregate highest indebtedness of the KMP during 2018. All other items in this table relate to the KMP and their related parties.*

7.2. Other transactions

From time to time various KMP and their related parties will hold investments in funds that are either managed, related to or controlled by the Group. All such transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions.

All other transactions that have occurred with KMP are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services including services to eligible international assignees ensuring they are neither financially advantaged nor disadvantaged by their relocation. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are trivial in nature when they are considered of little or no interest to the users of the Remuneration report in making and evaluating decisions about the allocation of scarce resources. Transactions are domestic in nature when they relate to personal household activities.

Good governance

Good governance matters. The Group's governance practices empower and enable the Group's operations. They provide clarity on the scope of authorities, encourage transparency, and support compliance. Good governance allows the timely flow of information to the Board to support it in fulfilling its roles, responsibilities and accountabilities. NAB is committed to a high standard of corporate governance.

Further details of corporate governance at NAB, and confirmation of NAB's compliance in 2018 with the 3rd edition of the ASX Corporate Governance Principles and Recommendations, are contained in NAB's 2018 Corporate Governance Statement and Appendix 4G which are published separately in the corporate governance section of the NAB website at www.nab.com.au/about-us/corporate-governance.

Board composition and diversity

NAB Board consists of nine independent non-executive directors, including the Chairman, and one executive director, the Group CEO. The Board actively reviews its composition to ensure it maintains the appropriate mix of skills, experience, expertise and diversity required to discharge its responsibilities. In 2018, the Board achieved 33% female non-executive director representation.

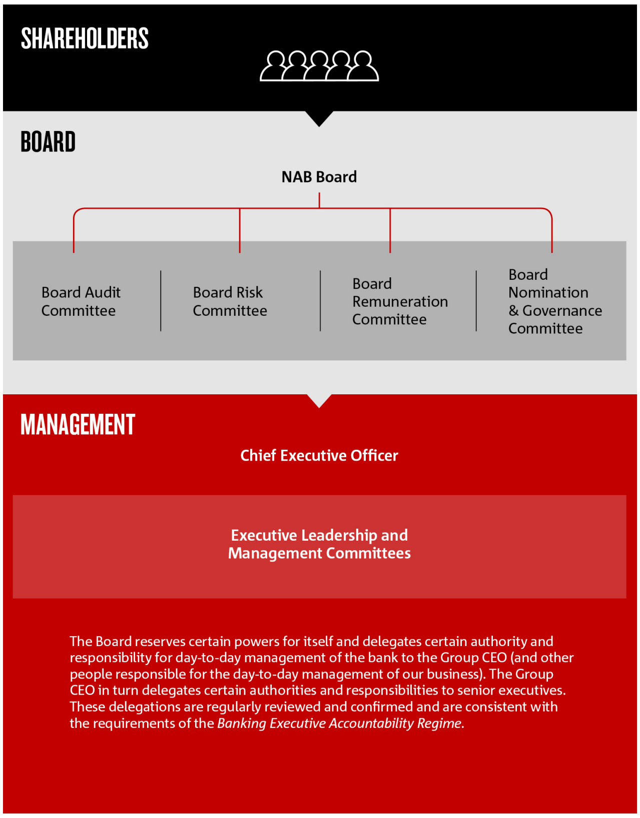
The Board's Nomination & Governance Committee undertakes an annual assessment of Board composition using a Board skills matrix to assess the skills and experience of each director and the combined capabilities of the Board. The skills matrix, and information about the Board's tenure, age profile and gender diversity, are contained in the 2018 Corporate Governance Statement.

Board responsibilities and performance

The Board provides strategic direction for the Group's business and represents the interests of NAB shareholders through the creation of sustainable value. The creation of sustainable value is achieved through a focus on customers, employees and the broader community. The Board is supported by its standing committees that cover Risk, Audit, Remuneration and Nomination & Governance matters. Each Committee is governed by a Charter that sets out its scope, authority, duties and responsibilities.

More information on the functions and responsibilities of the Board and its Committees is contained in the 2018 Corporate Governance Statement. Details of the number of meetings held by the Board and its Committees in 2018, and attendance by directors, are contained in the Report of the Directors within this Annual Financial Report.

Directors' independence and capacity are regularly assessed. The Board has determined for 2018 that all non-executive directors are independent and that the Board consisted of a majority of independent directors. After taking into consideration the existing workload of directors, the Board has concluded that each non-executive director has sufficient capacity to undertake the duties expected of a director of NAB.



To support continuous improvement the Board conducts an annual assessment of its performance and effectiveness, as well as of each of its Committees. Each director also participates in individual interviews with the Chairman. The annual assessments were conducted in 2018.

Shareholder engagement

NAB makes increasing use of technology to communicate with all stakeholders by webcasting significant market briefings and meetings, including the Annual General Meeting (AGM) (all of which are available on the NAB website at www.nab.com.au/shareholder, as well as the NAB Investor Relations mobile app). Shareholders will again be invited to submit questions in advance of the 2018 AGM to help the Board understand and address areas of interest or concern.

FINANCIAL STATEMENTS

INCOME STATEMENTS

For the year ended 30 September	Note	Group 2018 [(1)] $m	Group 2017 [(1)] $m	Company 2018 $m	Company 2017 $m
Interest income		**28,543**	27,403	**26,955**	26,101
Interest expense		**(15,038)**	(14,221)	**(16,860)**	(16,467)
Net interest income	3	**13,505**	13,182	**10,095**	9,634
Other income	4	**5,596**	4,842	**5,262**	5,023
Operating expenses	5	**(9,910)**	(8,539)	**(7,787)**	(7,207)
Credit impairment charge	17	**(791)**	(824)	**(707)**	(731)
Profit before income tax		**8,400**	8,661	**6,863**	6,719
Income tax expense	6	**(2,455)**	(2,480)	**(1,644)**	(1,744)
Net profit for the year from continuing operations		**5,945**	6,181	**5,219**	4,975
Net (loss) after tax for the year from discontinued operations	37	**(388)**	(893)	**-**	-
Net profit for the year		**5,557**	5,288	**5,219**	4,975
Profit attributable to non-controlling interests		**3**	3	**-**	-
Net profit attributable to owners of NAB		**5,554**	5,285	**5,219**	4,975

Earnings per share	Note	Group 2018 cents	Group 2017 cents
Basic	7	**201.3**	194.7
Diluted	7	**194.0**	189.1
Basic from continuing operations	7	**215.6**	228.2
Diluted from continuing operations	7	**207.2**	220.1

(1) *Information is presented on a continuing operations basis.*

STATEMENTS OF COMPREHENSIVE INCOME

		Group		Company	
For the year ended 30 September	Note	2018 [1]	2017 [1]	2018	2017
		$m	$m	$m	$m
Net profit for the year from continuing operations		**5,945**	6,181	**5,219**	4,975
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gains on defined benefit superannuation plans		**7**	-	**-**	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk		**66**	11	**10**	55
Revaluation of land and buildings		**-**	1	**-**	-
Currency adjustments on translation of other contributed equity		**41**	4	**-**	-
Equity instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		**19**	(1)	**15**	(8)
Tax on items transferred directly to equity		**(18)**	31	**(1)**	22
Total items that will not be reclassified to profit or loss		**115**	46	**24**	69
Items that will be reclassified subsequently to profit or loss					
Cash flow hedge reserve:					
Losses on cash flow hedging instruments		**(26)**	(114)	**(19)**	(69)
Cost of hedging reserve		**(76)**	-	**(1)**	-
Foreign currency translation reserve:					
Currency adjustments on translation of foreign operations, net of hedging		**15**	(273)	**14**	(32)
Transfer to the income statement on disposal of foreign operations		**(62)**	(10)	**-**	-
Debt instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		**(88)**	25	**(88)**	25
Gains from sale transferred to the income statement		**(9)**	(3)	**(9)**	(3)
Change in loss allowance on debt instruments		**5**	(1)	**5**	(1)
Tax on items transferred directly to equity		**38**	17	**27**	5
Total items that will be reclassified subsequently to profit or loss		**(203)**	(359)	**(71)**	(75)
Other comprehensive income for the year, net of income tax		**(88)**	(313)	**(47)**	(6)
Total comprehensive income for the year from continuing operations		**5,857**	5,868	**5,172**	4,969
Net loss for the year from discontinued operations	37	**(388)**	(893)	**-**	-
Total comprehensive income for the year		**5,469**	4,975	**5,172**	4,969
Attributable to non-controlling interests		**3**	3	**-**	-
Total comprehensive income attributable to owners of NAB		**5,466**	4,972	**5,172**	4,969

[1] *Information is presented on a continuing operations basis.*

BALANCE SHEETS

As at 30 September	Note	Group 2018 $m	Group 2017 $m	Company 2018 $m	Company 2017 $m
Assets					
Cash and liquid assets	8	**50,188**	43,826	**49,717**	42,152
Due from other banks	8	**30,568**	37,066	**28,293**	35,030
Trading instruments	9	**78,228**	80,091	**72,961**	76,020
Debt instruments	10	**42,056**	42,131	**41,957**	42,029
Other financial assets	11	**10,041**	16,058	**8,581**	11,825
Hedging derivatives	18	**3,840**	3,892	**2,703**	3,816
Loans and advances	12	**567,981**	540,125	**492,508**	468,277
Due from customers on acceptances		**3,816**	6,786	**3,816**	6,786
Current tax assets		**-**	-	**82**	-
Property, plant and equipment		**1,199**	1,315	**423**	476
Due from controlled entities		**-**	-	**100,483**	109,163
Investments in controlled entities		**-**	-	**10,331**	8,673
Goodwill and other intangible assets	22	**5,787**	5,601	**2,445**	2,361
Deferred tax assets	6	**2,083**	1,988	**1,447**	1,242
Other assets	23	**10,723**	9,446	**8,187**	6,666
Total assets		**806,510**	788,325	**823,934**	814,516
Liabilities					
Due to other banks	8	**38,192**	36,683	**36,371**	35,201
Trading instruments	9	**22,422**	27,187	**25,863**	27,065
Other financial liabilities	16	**30,437**	29,631	**7,381**	5,930
Hedging derivatives	18	**2,547**	1,674	**1,818**	3,859
Deposits and other borrowings	13	**503,145**	500,604	**448,616**	450,010
Current tax liabilities		**103**	230	**-**	71
Provisions	24	**2,196**	1,961	**1,879**	1,734
Due to controlled entities		**-**	-	**102,888**	107,601
Bonds, notes and subordinated debt	14	**140,222**	124,871	**136,110**	121,315
Other debt issues	15	**6,158**	6,187	**6,158**	6,187
Other liabilities	25	**8,376**	7,980	**7,108**	6,942
Total liabilities		**753,798**	737,008	**774,192**	765,915
Net assets		**52,712**	51,317	**49,742**	48,601
Equity					
Contributed equity	26	**35,982**	34,627	**34,221**	32,866
Reserves	27	**46**	237	**108**	190
Retained profits		**16,673**	16,442	**15,413**	15,545
Total equity (parent entity interest)		**52,701**	51,306	**49,742**	48,601
Non-controlling interest in controlled entities		**11**	11	**-**	-
Total equity		**52,712**	51,317	**49,742**	48,601

CASH FLOW STATEMENTS

		Group		Company	
For the year ended 30 September [1]	Note	2018 $m	2017 $m	2018 $m	2017 $m
Cash flows from operating activities					
Interest received		**28,340**	27,176	**26,749**	25,761
Interest paid		**(14,778)**	(14,315)	**(16,635)**	(16,459)
Dividends received		**49**	36	**2,710**	2,035
Net trading income (paid) / received		**9,622**	(3,198)	**9,125**	(2,471)
Other operating income received		**4,424**	4,427	**1,877**	2,029
Operating expenses paid		**(8,824)**	(7,868)	**(6,878)**	(5,858)
Income tax paid		**(2,634)**	(2,544)	**(2,083)**	(1,825)
Cash flows from operating activities before changes in operating assets and liabilities		**16,199**	3,714	**14,865**	3,212
Changes in operating assets and liabilities					
Net (increase) / decrease in					
Deposits with central banks and other regulatory authorities		**(271)**	281	**(271)**	281
Trading instruments		**(1,880)**	(6,488)	**(818)**	(5,677)
Other financial assets		**5,421**	4,762	**2,448**	2,678
Loans and advances		**(27,741)**	(33,401)	**(23,910)**	(27,714)
Due from customers on acceptances		**2,999**	5,438	**3,001**	5,436
Other assets		**(981)**	1,041	**(1,087)**	1,695
Net increase / (decrease) in					
Deposits and other borrowings		**(1,842)**	43,430	**(6,007)**	34,796
Other financial liabilities		**1,288**	(6,575)	**744**	(46)
Other liabilities		**1,430**	(1,722)	**2,002**	(1,850)
Net funds advanced to and receipts from other banks		**228**	(902)	**226**	(881)
Net movement in derivative assets and liabilities		**(4,046)**	3,639	**(2,018)**	2,632
Net changes in operating assets and liabilities		**(25,395)**	9,503	**(25,690)**	11,350
Net cash provided by operating activities	36	**(9,196)**	13,217	**(10,825)**	14,562
Cash flows from investing activities					
Movement in debt instruments at fair value through other comprehensive income					
Purchases		**(22,018)**	(23,392)	**(22,018)**	(23,337)
Proceeds from disposal and maturity		**22,228**	21,633	**22,216**	21,573
Net movement in other debt and equity instruments		**203**	168	**2**	(7)
Net movement in amounts due from controlled entities		**-**	-	**3,898**	311
Net movement in shares in controlled entities		**7**	-	**(1,724)**	688
Proceeds from sale of controlled entities, net of cash disposed		**-**	2,255	**-**	2,206
Proceeds on sale of associates and joint ventures, net of cash disposed		**(342)**	37	**(342)**	-
Purchase of property, plant, equipment and software		**(1,051)**	(1,028)	**(735)**	(739)
Proceeds from sale of property, plant, equipment and software, net of costs		**19**	14	**1**	(1)
Net cash (used in) / provided by investing activities		**(954)**	(313)	**1,298**	694
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(22,951)**	(32,426)	**(17,009)**	(29,868)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**32,139**	37,318	**26,913**	32,438
Repayments of other contributed equity, net of costs		**-**	(400)	**-**	(400)
Repayments of other debt issues		**(41)**	(73)	**(41)**	(73)
Dividends and distributions paid (excluding dividend reinvestment plan)		**(4,221)**	(4,750)	**(4,177)**	(4,707)
Net cash (used in) / provided by financing activities		**4,926**	(331)	**5,686**	(2,610)
Net (decrease) / increase in cash and cash equivalents		**(5,224)**	12,573	**(3,841)**	12,646
Cash and cash equivalents at beginning of period		**39,800**	27,960	**36,831**	24,850
Effects of exchange rate changes on balance of cash held in foreign currencies		**3,370**	(733)	**3,378**	(665)
Cash and cash equivalents at end of year	36	**37,946**	39,800	**36,368**	36,831

(1) *The cash flow statements include cash flows of discontinued operations for the period up to the date on which the Group lost control of those operations, and cash flows after the loss of control that are directly related to the disposal. Details of these cash flows are included in Note 37 Discontinued operations.*

STATEMENTS OF CHANGES IN EQUITY

Group	Contributed equity[(1)] $m	Reserves[(2)] $m	Retained profits $m	Total $m	Non-controlling interest in controlled entities $m	Total equity $m
Year to 30 September 2017						
Balance at 1 October 2016	34,285	629	16,378	51,292	23	51,315
Net profit for the year from continuing operations	-	-	6,178	6,178	3	6,181
Net (loss) for the year from discontinued operations	-	-	(893)	(893)	-	(893)
Other comprehensive income for the year from continuing operations	-	(356)	43	(313)	-	(313)
Total comprehensive income for the year	-	(356)	5,328	4,972	3	4,975
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares	569	-	-	569	-	569
Redemption of National Capital Instruments[(3)]	(397)	-	(3)	(400)	-	(400)
Transfer from / (to) retained profits	-	(53)	53	-	-	-
Transfer from equity-based compensation reserve	170	(170)	-	-	-	-
Equity-based compensation	-	187	-	187	-	187
Dividends paid	-	-	(5,216)	(5,216)	(5)	(5,221)
Distributions on other equity instruments	-	-	(98)	(98)	-	(98)
Changes in ownership interests[(4)]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(10)	(10)
Balance at 30 September 2017	34,627	237	16,442	51,306	11	51,317
Year to 30 September 2018						
Net profit for the year from continuing operations	**-**	**-**	**5,942**	**5,942**	**3**	**5,945**
Net loss for the year from discontinued operations	**-**	**-**	**(388)**	**(388)**	**-**	**(388)**
Other comprehensive income for the year from continuing operations	**-**	**(143)**	**55**	**(88)**	**-**	**(88)**
Total comprehensive income for the year	**-**	**(143)**	**5,609**	**5,466**	**3**	**5,469**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares	**1,182**	**-**	**-**	**1,182**	**-**	**1,182**
Transfer from / (to) retained profits	**-**	**(21)**	**21**	**-**	**-**	**-**
Transfer from equity-based compensation reserve	**173**	**(173)**	**-**	**-**	**-**	**-**
Equity-based compensation	**-**	**146**	-	**146**	**-**	**146**
Dividends paid	**-**	**-**	**(5,299)**	**(5,299)**	**(4)**	**(5,303)**
Distributions on other equity instruments	**-**	**-**	**(100)**	**(100)**	**-**	**(100)**
Changes in ownership interests[(4)]						
Movement of non-controlling interest in controlled entities	**-**	**-**	**-**	**-**	**1**	**1**
Balance at 30 September 2018	**35,982**	**46**	**16,673**	**52,701**	**11**	**52,712**

[(1)] *Refer to Note 26 Contributed equity for further details.*
[(2)] *Refer to Note 27 Reserves for further details.*
[(3)] *National Capital Instruments were fully redeemed on 4 October 2016.*
[(4)] *Changes in ownership interests in controlled entities that do not result in a loss of control.*

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

Company	Contributed equity[1] $m	Reserves[2] $m	Retained profits $m	Total equity $m
Year to 30 September 2017				
Balance at 1 October 2016	32,524	309	15,719	48,552
Net profit for the year from continuing operations	-	-	4,975	4,975
Other comprehensive income for the year from continuing operations	-	(83)	77	(6)
Total comprehensive income for the year	-	(83)	5,052	4,969
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Issue of ordinary shares	569	-	-	569
Redemption of National Capital Instruments[3]	(397)	-	(3)	(400)
Transfer from / (to) retained profits	-	(53)	53	-
Transfer from equity-based compensation reserve	170	(170)	-	-
Equity-based compensation	-	187	-	187
Dividends paid	-	-	(5,216)	(5,216)
Distributions on other equity instruments	-	-	(60)	(60)
Balance at 30 September 2017	32,866	190	15,545	48,601
Year to 30 September 2018				
Net profit for the year from continuing operations	-	**-**	**5,219**	**5,219**
Other comprehensive income for the year from continuing operations	-	**(56)**	**9**	**(47)**
Total comprehensive income for the year	**-**	**(56)**	**5,228**	**5,172**
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Issue of ordinary shares	**1,182**	**-**	**-**	**1,182**
Transfer from / (to) retained profits	**-**	**1**	**(1)**	**-**
Transfer to / (from) equity-based compensation reserve	**173**	**(173)**	**-**	**-**
Equity-based compensation	**-**	**146**	**-**	**146**
Dividends paid	**-**	**-**	**(5,299)**	**(5,299)**
Distributions on other equity instruments	**-**	**-**	**(60)**	**(60)**
Balance at 30 September 2018	**34,221**	**108**	**15,413**	**49,742**

(1) *Refer to Note 26 Contributed equity for further details.*
(2) *Refer to Note 27 Reserves for further details.*
(3) *National Capital Instruments were fully redeemed on 4 October 2016.*

INTRODUCTION

NOTE 1
BASES OF PREPARATION AND MEASUREMENT

These are the financial statements of National Australia Bank Limited (Company) together with its controlled entities (Group) for the year ended 30 September 2018. National Australia Bank Limited, incorporated and domiciled in Australia, is a for-profit company limited by shares which are publicly traded on the Australian Securities Exchange.

The directors resolved to authorise the issue of these financial statements on 16 November 2018. The directors have the power to amend and reissue the financial statements.

In 2018, the Group reviewed the content and format of the financial statements with the intention of making them more relevant and less complex for users to understand. The primary purpose in this regard is to provide users with a better understanding of the key drivers of financial performance and financial position of the Group and linkages to the Group's strategy, whilst complying with applicable requirements. This review has resulted in the following changes from the prior year:
- Simpler and clearer language in disclosures.
- Elimination of immaterial disclosures that may distract users from information that may be material and relevant to their understanding.
- Organisation of disclosures into sections to help users better understand how the Group is managed and evaluated.
- Information about the Group's accounting policies, key accounting judgements and estimates applied in the preparation of the financial statements are clearly distinguished within the relevant notes to these financial statements.

The financial statements include information to the extent the Group considers it material and relevant to the understanding of users. Disclosed information is considered material and relevant if, for example:
- The dollar amount is significant in size or by nature.
- The Group's results cannot be understood by users without the specific disclosure.
- The information is important to help users understand the impact of significant changes in the Group's business during the financial year, for example, a business acquisition, disposal, or an impairment / write-down.
- The information relates to an aspect of the Group's operations which is important to its future performance.
- The information is required under legislative requirements of the *Corporations Act 2001* (Cth), the *Banking Act 1959* (Cth) or by the Group's principal regulators, including the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA).

Basis of preparation

This general purpose financial report has been prepared by a for-profit company, in accordance with the requirements of the *Corporations Act 2001* (Cth), accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB).

Amounts are presented in Australian dollars (unless otherwise stated), which is the Company's functional and presentation currency. These amounts have been rounded to the nearest million dollars ($m), except where indicated, as allowed by ASIC Corporations Instrument 2016/191.

Comparative information has been restated to accord with changes in presentation made in the current year, except where otherwise stated. The results of discontinued operations are presented separately in the income statements and statements of comprehensive income with comparative information restated accordingly. Balance sheets have not been restated for the effect of discontinued operations. Refer to *Note 37 Discontinued operations* for further detail.

To comply with its obligations as an Australian Financial Services Licence holder, the Group includes the separate financial statements of the Company in this financial report, which is permitted by ASIC Class Order 10/654 dated 26 July 2010.

Basis of measurement

The financial report has been prepared under the historical cost convention, except for certain assets and liabilities (including derivative instruments) measured at fair value through the income statement or in other comprehensive income.

NOTE 1 BASES OF PREPARATION AND MEASUREMENT (CONTINUED)

Change in accounting policies

The Group adopted hedge accounting requirements of AASB 9 *Financial Instruments* and other minor amendments to the standard in 2018. The hedge accounting requirements were adopted on 1 April 2018 as a change in accounting policy as permitted by AASB 9.

Accounting developments

Amendments to AASB 107 *Statement of Cash Flows* requiring disclosures of a reconciliation between opening and closing balances in the balance sheet for liabilities arising from financing activities is now included in *Note 36 Notes to the cash flow statements.*

Critical accounting assumptions and estimates

In the process of applying the Group's accounting policies, management has made a number of judgements and assumptions and applied estimates of future events. Some of these include areas involving:
- impairment charges on loans and advances
- fair value of financial assets and liabilities
- impairment assessment of goodwill and other intangible assets
- provisions for customer-related remediation and other regulatory matters
- provisions for restructuring-related costs.

Further information on specific judgements and assumptions made and estimates applied, are contained within the notes to the financial statements.

New accounting standards issued but not yet effective

The following issued, but not yet effective, Australian Accounting Standards have not been applied in preparing these financial statements.

AASB 15 *Revenue from Contracts with Customers* introduces a single principles-based five step model for recognising revenue, and introduces the concept of recognising revenue when an obligation to a customer is satisfied. The Group will adopt AASB 15 from 1 October 2018. Trailing commissions are the primary revenue stream impacted by the transition to AASB 15. The Group determined that it has no substantive ongoing performance obligation in respect of trailing commissions and therefore is required to estimate the present value of trailing commissions it is entitled to collect and recognise that estimate as a contract asset. The contract asset and the adjustment to retained earnings are not material to the Group's financial statements. No other material transition adjustments were identified.

AASB 16 *Leases* significantly changes accounting for lessees, requiring recognition of all leases (subject to certain exceptions) on-balance sheet in a manner comparable to finance leases currently accounted under AASB 117 *Leases*. Lessor accounting remains unchanged compared to AASB 117. This Standard is applicable from 1 October 2019 and its impact on the Group's financial report is being assessed.

Other amendments made to existing standards that are not yet effective are not expected to result in a material impact to the Group's financial report.

FINANCIAL PERFORMANCE

OVERVIEW

Management reviews the Group's performance based on the five divisions illustrated below. The Group's operating segments are consistent with this divisional split. Refer to the *Report of the Directors* for a description of the operating activities of the divisions.

Management assesses the Group's and operating segments' performance based on a non-IFRS measure called 'cash earnings'. Utilising cash earnings allows management to:

- more effectively assess the current year performance against prior years
- compare performance across business divisions
- compare performance across peer organisations.

Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for items the Group considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the year ended 30 September 2018 has been adjusted for distributions, fair value and hedge ineffectiveness, amortisation of acquired intangible assets and MLC Wealth divestment transaction costs.

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.

The Group earns the vast majority of its revenue in the form of net interest income (NII). NII is the difference between interest earned on financial assets and interest paid on financial liabilities and other financing costs.

NOTE 2
SEGMENT INFORMATION

	2018					
	Business and Private Banking $m	Consumer Banking and Wealth $m	Corporate and Institutional Banking $m	New Zealand Banking $m	Corporate Functions and Other [1] [2] $m	Total $m
Reportable segment information						
Net interest income	5,539	3,964	1,882	1,698	384	13,467
Other income	1,068	1,541	1,451	520	(70)	4,510
Net operating income	6,607	5,505	3,333	2,218	314	17,977
Operating expenses	(2,230)	(3,046)	(1,297)	(869)	(1,550)	(8,992)
Underlying profit	4,377	2,459	2,036	1,349	(1,236)	8,985
Credit impairment (charge) / write-back	(207)	(271)	43	(70)	(274)	(779)
Cash earnings / (deficit) before tax and distributions	4,170	2,188	2,079	1,279	(1,510)	8,206
Income tax (expense) / benefit	(1,259)	(649)	(538)	(357)	399	(2,404)
Cash earnings / (deficit) before distributions	2,911	1,539	1,541	922	(1,111)	5,802
Distributions	-	-	-	-	(100)	(100)
Cash earnings / (deficit)	2,911	1,539	1,541	922	(1,211)	5,702
Fair value and hedge ineffectiveness	(6)	27	13	(2)	150	182
Other non-cash earning items	-	(30)	-	-	88	58
Net profit / (loss) for the year from continuing operations	2,905	1,536	1,554	920	(973)	5,942
Net (loss) after tax for the year from discontinued operations	-	-	-	-	(388)	(388)
Net profit / (loss) attributable to the owners of NAB	2,905	1,536	1,554	920	(1,361)	5,554
Reportable segment assets	199,750	228,705	263,752	79,130	35,173	806,510

(1) *Corporate Functions and Other includes Group Eliminations.*
(2) *Includes restructuring-related costs and customer-related remediation. Refer Note 4 Other income and Note 5 Operating expenses for further details.*

	2017					
	Business and Private Banking $m	Consumer Banking and Wealth $m	Corporate and Institutional Banking $m	New Zealand Banking $m	Corporate Functions and Other [1] $m	Total $m
Reportable segment information						
Net interest income	5,257	3,884	1,972	1,586	467	13,166
Other income	1,062	1,597	1,368	530	172	4,729
Net operating income	6,319	5,481	3,340	2,116	639	17,895
Operating expenses	(2,084)	(2,910)	(1,236)	(827)	(578)	(7,635)
Underlying profit	4,235	2,571	2,104	1,289	61	10,260
Credit impairment charge	(180)	(267)	(37)	(67)	(259)	(810)
Cash earnings / (deficit) before tax and distributions	4,055	2,304	2,067	1,222	(198)	9,450
Income tax (expense) / benefit	(1,214)	(671)	(532)	(340)	47	(2,710)
Cash earnings / (deficit) before distributions	2,841	1,633	1,535	882	(151)	6,740
Distributions	-	-	-	-	(98)	(98)
Cash earnings / (deficit)	2,841	1,633	1,535	882	(249)	6,642
Fair value and hedge ineffectiveness	(26)	(1)	(23)	(14)	(436)	(500)
Other non-cash earning items	-	(62)	-	-	98	36
Net profit / (loss) for the year from continuing operations	2,815	1,570	1,512	868	(587)	6,178
Net (loss) after tax for the year from discontinued operations	-	-	-	-	(893)	(893)
Net profit / (loss) attributable to the owners of NAB	2,815	1,570	1,512	868	(1,480)	5,285
Reportable segment assets	192,848	217,567	259,297	76,055	42,558	788,325

(1) *Corporate Functions and Other includes Group Eliminations.*

NOTE 2 SEGMENT INFORMATION (CONTINUED)

Major customers

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

Geographical information

The Group has operations in Australia (the Company's country of domicile), New Zealand, Europe, the United States and Asia. The allocation of income and non-current assets is based on the geographical location in which transactions are booked.

	Group			
	Income [1]		Non-current assets [2]	
	2018 $m	2017 $m	2018 $m	2017 $m
Australia	**15,825**	14,966	**10,293**	10,283
New Zealand	**2,368**	2,176	**741**	677
Other International	**965**	939	**41**	45
Total before inter-geographic eliminations	**19,158**	18,081	**11,075**	11,005
Elimination of inter-geographic items	**(57)**	(57)	**-**	-
Total	**19,101**	18,024	**11,075**	11,005

[1] *Information is presented on a continuing operations basis.*

[2] *Non-current assets refer to assets that include amounts expected to be recovered more than 12 months after the reporting date. They do not include financial instruments, deferred tax assets or post-employment benefits assets.*

NOTE 3
NET INTEREST INCOME

Accounting policy

Interest income and expense are recognised in the income statements using the effective interest method. The effective interest method measures the amortised cost of a financial asset or financial liability using the effective interest rate. The effective interest rate discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument to the net carrying amount of the financial instrument.

Fees and costs which form an integral part of the effective interest rate of a financial instrument are recognised using the effective interest method and recorded in interest income or expense depending on whether the underlying instrument is a financial asset or liability (for example, loan origination fees).

Interest income and expense on trading securities are recognised within net interest income. Interest income and expense on both hedging instruments and financial assets and liabilities measured at fair value through profit or loss are recognised in net interest income.

	Group		Company	
	2018 [(1)] $m	2017 [(1)] $m	2018 $m	2017 $m
Interest income				
Due from other banks	**634**	590	**553**	544
Marketable debt securities	**2,146**	2,226	**2,022**	2,096
Loans and advances	**24,477**	23,330	**19,825**	18,864
Due from customers on acceptances	**248**	419	**248**	419
Due from controlled entities	**-**	-	**3,324**	3,435
Other interest income	**1,038**	838	**983**	743
Total interest income	**28,543**	27,403	**26,955**	26,101
Interest expense				
Due to other banks	**605**	559	**585**	543
Deposits and other borrowings	**8,825**	8,229	**7,523**	7,031
Bonds, notes and subordinated debt	**4,558**	4,464	**3,909**	3,734
Due to controlled entities	**-**	-	**3,797**	4,214
Bank levy	**370**	94	**370**	94
Other debt issues	**242**	233	**242**	233
Other interest expense	**438**	642	**434**	618
Total interest expense	**15,038**	14,221	**16,860**	16,467
Net interest income	**13,505**	13,182	**10,095**	9,634

[(1)] *Information is presented on a continuing operations basis.*

NOTE 4
OTHER INCOME

Accounting policy

Classes of other income are measured as follows:

Items	Measurement basis
Trading instruments	**Trading derivatives** - Total fair value change (including interest income or expense), with the exception of some instruments that form part of an economic hedge relationship. **Trading securities** - All fair value changes except for interest income or expense, which is recognised within net interest income.
Hedge ineffectiveness	Represents hedge ineffectiveness, which is fair value movements (excluding interest income or expense) that do not offset the hedged risk.
Financial instruments designated at fair value	Includes fair value movements except for interest income or expense and movements attributable to the Group's own credit risk.
Dividend revenue	Dividend revenue is recognised in the income statement on an accrual basis when the Group's right to receive the dividend is established.
Fees and commissions, banking and money transfer fees	Unless included in the effective interest rate, fees and commissions are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction. Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

	Group		Company	
	2018 (1) $m	2017 (1) $m	2018 $m	2017 $m
Gains less losses on financial instruments at fair value				
Trading instruments	**743**	1,314	**675**	1,832
Hedge ineffectiveness	**557**	(680)	**370**	(646)
Financial instruments designated at fair value	**225**	(225)	**80**	(164)
Other	**-**	143	**-**	150
Total gains less losses on financial instruments at fair value	**1,525**	552	**1,125**	1,172
Other operating income				
Dividend revenue				
Controlled entities	**-**	-	**2,675**	2,005
Other entities	**38**	27	**35**	30
Banking fees	**1,008**	943	**840**	784
Money transfer fees	**573**	584	**439**	444
Fees and commissions	**1,916**	2,162	**77**	372
Investment management fees	**312**	280	**-**	-
Other income	**224**	294	**71**	216
Total other operating income	**4,071**	4,290	**4,137**	3,851
Total other income	**5,596**	4,842	**5,262**	5,023

(1) *Information is presented on a continuing operations basis.*

Customer-related remediation

On 16 October 2018, the Group announced additional costs for several customer remediation matters. These additional costs relate to refunds and compensation to customers impacted by issues in NAB's Wealth business, including adviser service fees, plan service fees, the Wealth advice review and other Wealth related issues. The customer-related remediation of $249 million is recognised as a reduction in fees and commissions in the September 2018 financial year.

NOTE 5
OPERATING EXPENSES

Accounting policy

Annual leave, long service leave and other employee benefits

Salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of employees rendering service are measured at their nominal amounts using remuneration rates that the Group expects to pay when the liabilities are settled. Employee entitlements to long service leave is accrued using an actuarial calculation, including assumptions regarding employee departures, leave utilisation and future salary increases.

A liability is recognised for the amount expected to be paid under short-term cash bonuses when the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated. All other employee entitlements that are not expected to be paid or settled within 12 months of the reporting date are measured at the present value of net future cash flows. Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancy are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Refer to *Note 24 Provisions* for balances of employee benefit related provisions.

Restructuring

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

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

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

The restructuring-related costs are reflected in other operating expenses as:
- $427 million of personnel expenses
- $35 million of occupancy-related expenses
- $146 million of impairment losses recognised
- $125 million of professional fees
- $22 million of other expenses.

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

Customer-related remediation

On 16 October 2018, the Group announced additional costs for several customer remediation matters including costs for implementing remediation processes and other costs associated with regulatory compliance matters. The customer-related remediation of $111 million is recognised as a charge to provide for operational risk event losses in the September 2018 financial year.

NOTE 5 OPERATING EXPENSES (CONTINUED)

	Group		Company	
	2018 [(1)]	2017 [(1)]	2018	2017
	$m	$m	$m	$m
Personnel expenses				
Salaries and related on-costs	**3,345**	3,252	**2,578**	2,488
Superannuation costs-defined contribution plans	**266**	258	**238**	230
Performance-based compensation	**622**	582	**465**	434
Other expenses	**728**	326	**645**	247
Total personnel expenses	**4,961**	4,418	**3,926**	3,399
Occupancy-related expenses				
Operating lease rental expense	**451**	442	**484**	464
Other expenses	**133**	85	**101**	68
Total occupancy-related expenses	**584**	527	**585**	532
General expenses				
Fees and commission expense	**612**	611	**35**	31
Depreciation of property, plant and equipment	**304**	305	**155**	151
Amortisation of intangible assets	**476**	429	**375**	325
Advertising and marketing	**226**	187	**190**	163
Charge to provide for operational risk event losses [(2)]	**295**	182	**596**	973
Communications, postage and stationery	**206**	204	**174**	169
Computer equipment and software	**657**	651	**613**	614
Data communication and processing charges	**75**	80	**49**	45
Professional fees	**799**	503	**665**	373
Impairment losses recognised	**174**	20	**30**	129
Other expenses	**541**	422	**394**	303
Total general expenses	**4,365**	3,594	**3,276**	3,276
Total operating expenses	**9,910**	8,539	**7,787**	7,207

(1) *Information is presented on a continuing operations basis.*

(2) *The Company charge to provide for operational risk event losses includes provisions in relation to the Conduct Indemnity Deed and customer-related remediation which are included in discontinued operations at a Group level. Refer to Note 37 Discontinued operations for further information.*

NOTE 6
INCOME TAX

Accounting policy

Income tax expense (or benefit) is the tax payable (or receivable) on the current year's taxable income based on the applicable tax rate in each jurisdiction adjusted by changes in deferred tax assets and liabilities. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in the statements of comprehensive income. The tax associated with these transactions will be recognised in the income statement at the same time as the underlying transaction.

The income tax benefit related to research and development expenditure is recognised as a reduction in the related asset or operating expense, depending on the nature of the expenditure.

Deferred tax assets and liabilities are recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are only recognised for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable amounts will arise to utilise those temporary differences and losses. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities are realised simultaneously.

Income tax expense

The income tax expense for the year reconciles to the profit before income tax as follows:

	Group		Company	
	2018 [1]	**2017** [1]	**2018**	**2017**
	$m	**$m**	**$m**	**$m**
Profit before income tax	**8,400**	8,661	**6,863**	6,719
Prima facie income tax expense at 30%	**2,520**	2,598	**2,059**	2,016
Tax effect of permanent differences:				
Assessable foreign income	**7**	7	**4**	4
Foreign tax rate differences	**(38)**	(43)	**(22)**	(16)
Losses not tax effected	**4**	11	**4**	11
Foreign branch income not assessable	**(61)**	(78)	**(61)**	(78)
(Over) / under provision in prior years	**(3)**	(17)	**(3)**	(13)
Offshore banking unit income	**(62)**	(62)	**(50)**	(53)
Restatement of deferred tax balances for tax rate changes	**-**	1	**-**	1
Non-deductible hybrid distributions	**72**	70	**72**	70
Dividend income adjustments	**-**	-	**(588)**	(352)
Other	**16**	(7)	**229**	154
Income tax expense	**2,455**	2,480	**1,644**	1,744
Current tax expense	**2,734**	2,573	**1,868**	1,818
Deferred tax expense	**(279)**	(93)	**(224)**	(74)
Total income tax expense	**2,455**	2,480	**1,644**	1,744

(1) *Information is presented on a continuing operations basis.*

NOTE 6 INCOME TAX (CONTINUED)

Deferred tax assets and liabilities

The balance comprises temporary differences attributable to:

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Deferred tax assets				
Specific provision for credit impairment	**205**	223	**165**	166
Collective provision for credit impairment	**834**	742	**706**	625
Employee entitlements	**266**	250	**230**	225
Tax losses	**72**	76	**72**	68
Unrealised revaluations on funding vehicles	**362**	531	**-**	-
Other provisions	**323**	129	**305**	122
Other	**319**	341	**175**	252
Total deferred tax assets	**2,381**	2,292	**1,653**	1,458
Set-off of deferred tax liabilities pursuant to set-off provisions	**(298)**	(304)	**(206)**	(216)
Net deferred tax assets	**2,083**	1,988	**1,447**	1,242
Deferred tax liabilities				
Intangible assets	**8**	8	**-**	-
Depreciation	**109**	148	**37**	80
Defined benefit superannuation plan assets	**14**	10	**7**	6
Other	**167**	138	**162**	130
Total deferred tax liabilities	**298**	304	**206**	216
Deferred tax liabilities set-off against deferred tax assets pursuant to set-off provisions	**(298)**	(304)	**(206)**	(216)
Net deferred tax liability	**-**	-	**-**	-

Deferred tax assets not brought to account

Deferred tax assets have not been brought to account for the following items as realisation of the benefits is not regarded as probable:

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Capital gains tax losses	**1,129**	1,131	**1,129**	1,131
Income tax losses	**339**	478	**339**	478

NOTE 7
EARNINGS PER SHARE

	Group			
	Basic		Diluted	
	2018	2017	2018	2017
Earnings ($m)				
Net profit attributable to owners of NAB	**5,554**	5,285	**5,554**	5,285
Distributions on other equity instruments	**(100)**	(98)	**(100)**	(98)
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	**-**	-	**128**	126
Interest expense on convertible preference shares	**-**	-	**122**	119
Adjusted earnings	**5,454**	5,187	**5,704**	5,432
Net (loss) after tax for the year from discontinued operations	**(388)**	(893)	**(388)**	(893)
Adjusted earnings from continuing operations	**5,842**	6,080	**6,092**	6,325
Weighted average number of ordinary shares (no. '000)				
Weighted average ordinary shares (net of treasury shares)	**2,709,460**	2,664,511	**2,709,460**	2,664,511
Potential dilutive weighted average ordinary shares				
Performance rights	**-**	-	**4,367**	4,687
Partly paid ordinary shares	**-**	-	**16**	29
Employee share plans	**-**	-	**4,883**	5,375
Convertible notes	**-**	-	**103,561**	92,866
Convertible preference shares	**-**	-	**117,767**	105,605
Total weighted average ordinary shares	**2,709,460**	2,664,511	**2,940,054**	2,873,073
Earnings per share (cents) attributable to owners of NAB	**201.3**	194.7	**194.0**	189.1
Earnings per share (cents) from continuing operations	**215.6**	228.2	**207.2**	220.1
Earnings per share (cents) from discontinued operations	**(14.3)**	(33.5)	**(13.2)**	(31.1)

FINANCIAL INSTRUMENTS

OVERVIEW

Financial instruments represent the majority of the Group's balance sheet, including loans and advances, deposits, securities and derivatives. The carrying amount presented on the balance sheet reflects the Group's business model for managing the asset. Where that model is to collect contractual cash flows (such as with loans and advances), the financial instrument is measured at amortised cost. Conversely, where the financial instrument is managed on a fair value basis, that instrument will be measured as such. This approach presents relevant information about the nature and risks associated with the Group's balance sheet.

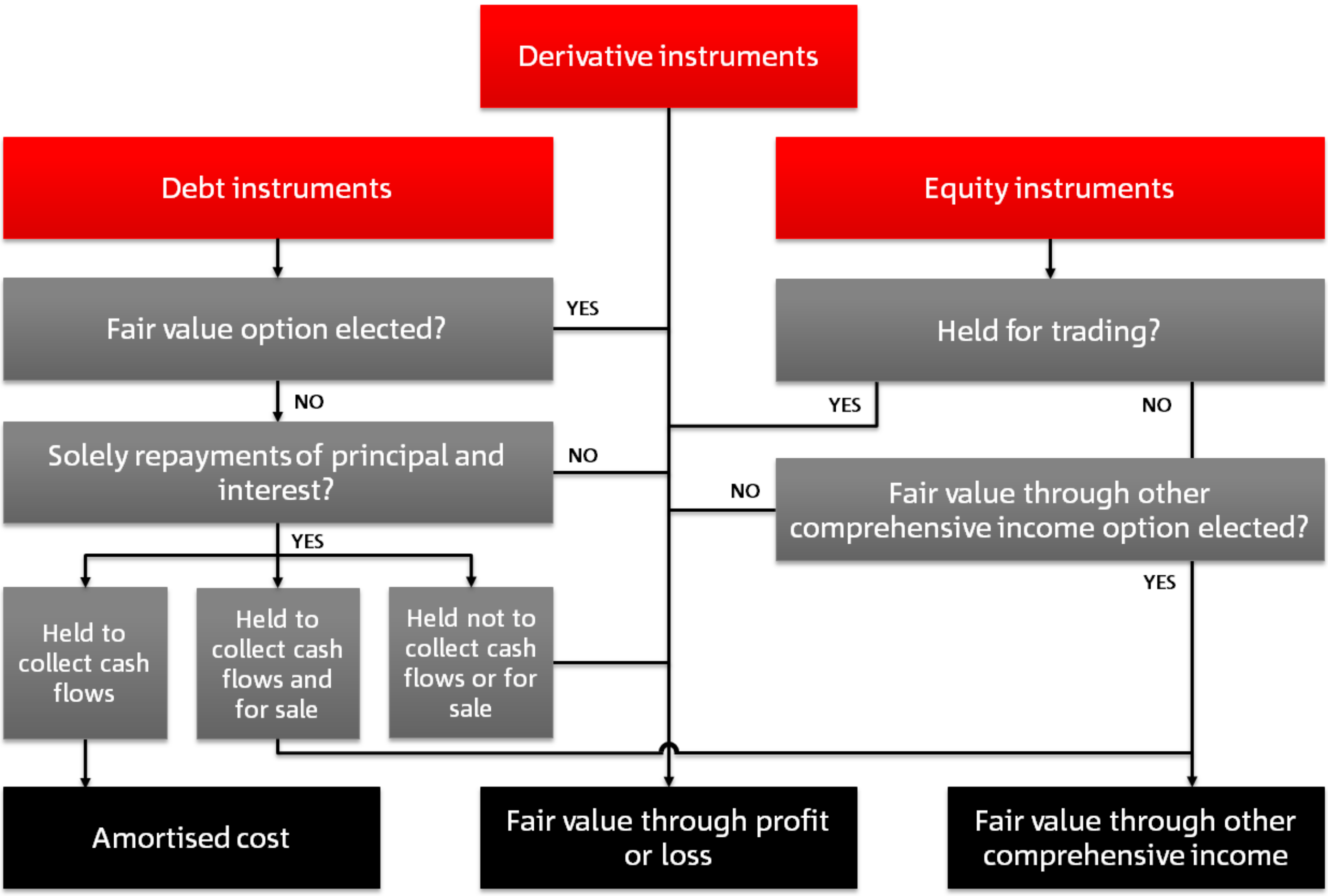
Initial recognition of financial instruments

Accounting for a financial instrument begins at initial recognition. A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and receivables are recognised when cash is advanced (or settled) to borrowers.

Financial instruments managed on a fair value basis are recognised initially at fair value, with transaction costs recognised in the income statement as incurred. All other financial instruments are recognised initially at fair value plus / less directly attributable transaction costs.

Classification

Following initial recognition is classification. AASB 9 *Financial Instruments* requires the Group to consider the following flow chart for all debt instruments (including loans and advances), derivative instruments and equity instruments.



Financial liabilities follow a much simpler classification process. The majority of the Group's financial liabilities are measured at amortised cost unless the Group elects to measure a financial liability at fair value through profit or loss.

Refer to the table at the end of this section for a summary of the classification applicable to the Group's balance sheet items.

Measurement

In 2014 the Group early adopted AASB 9 *Financial Instruments* (2014). At that time, 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 Group adopted the hedge accounting provisions under AASB 9 from 1 April 2018.

OVERVIEW (CONTINUED)

Financial instruments measured at amortised cost

Amortised cost is the amount at which a financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Financial assets measured at fair value through other comprehensive income

Gains or losses arising from changes in the fair value of financial instruments measured at fair value through other comprehensive income are recognised in a separate component of equity. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement.

Investment in equity instruments that are neither held for trading nor contingent consideration recognised by the Group in a business combination to which AASB 3 *Business Combination* applies, are measured at fair value through other comprehensive income, where an irrevocable election has been made by management. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

Financial instruments at fair value through profit or loss

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in own credit spreads and is presented separately in other comprehensive income.

Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable, and typically comprise of instruments such as swaps, forward rate agreements, futures and options.

All derivatives are recognised initially in the balance sheet at fair value and are classified as trading except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is remeasured to its current fair value throughout the life of the contract. Derivatives are presented as assets when the fair value is positive and as liabilities when the fair value is negative.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Refer to *Note 9 Trading instruments* and *Note 18 Hedge accounting*.

Derecognition of financial instruments

The Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group removes a financial liability from the balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

OVERVIEW (CONTINUED)

Summary of classification and measurement basis

Type of Instrument	Classification and measurement	Reason	Note
Financial assets			
Loans and advances (customer loans and facilities)	Amortised cost	Cash flows represent solely payments of principal and interest, held with the objective to collect contractual cash flows	*Note 12 Loans and advances*
Trading securities (bonds, notes or securities issued by government, financial institutions or other corporates)	Fair value through profit or loss	Principal purpose is selling or repurchasing in the near term, or part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking	*Note 9 Trading instruments*
Trading derivatives (forwards, swaps, futures, options)		Derivatives not in a qualifying hedging relationship	
Other financial assets		Designated at fair value through profit or loss to eliminate an accounting mismatch	*Note 11 Other financial assets*
Debt instruments (bonds, notes or securities issued by government, financial institutions or other corporates)	Fair value through other comprehensive income	Cash flows represent solely payments of principal and interest, held with the objective to both collect contractual cash flows or to sell	*Note 10 Debt instruments*
Hedging derivatives (forwards, swaps, futures, options)	Fair value [(1)]	Designated in a qualifying hedging relationship	*Note 18 Hedge accounting*
Financial liabilities			
Trading derivatives (forwards, swaps, futures, options)	Fair value through profit or loss	Derivatives not in a qualifying hedging relationship	*Note 9 Trading instruments*
Deposits and other borrowings (deposits, commercial paper, securities sold under repurchase agreements)	Amortised cost	Not designated as at fair value through profit or loss	*Note 13 Deposits and other borrowings*
Bonds and notes			*Note 14 Bonds, notes and subordinated debts*
Perpetual notes, convertible preference shares and convertible notes			*Note 15 Other debt issues*
Certain bonds, notes and deposits	Fair value through profit or loss [(2)]	Designated as at fair value through profit or loss to eliminate an accounting mismatch	*Note 16 Other financial liabilities*

(1) *The classification of the fair value movements will depend on the type of hedge (i.e. fair value hedge, cash flow hedge, or hedge of a net investment). Refer to Note 18 Hedge accounting.*

(2) *Except for changes in own credit risk which are recognised in other comprehensive income.*

NOTE 8

CASH AND BALANCES WITH OTHER BANKS

Accounting policy

Cash and liquid assets, due from and due to other banks are initially measured at fair value then subsequently at amortised cost.

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

Refer to *Note 36 Notes to the cash flow statements* for a detailed reconciliation of cash and cash equivalents.

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Cash and liquid assets				
Coins, notes and cash at bank	**919**	1,162	**770**	1,035
Securities purchased under agreements to resell	**48,069**	40,766	**48,015**	40,627
Other (including bills receivable and remittances in transit)	**1,200**	1,898	**932**	490
Total cash and liquid assets	**50,188**	43,826	**49,717**	42,152
Due from other banks				
Central banks and other regulatory authorities	**15,759**	22,219	**14,421**	20,916
Other banks	**14,809**	14,847	**13,872**	14,114
Total due from other banks	**30,568**	37,066	**28,293**	35,030
Due to other banks				
Central banks and other regulatory authorities	**17,049**	15,103	**17,049**	15,103
Other banks	**21,143**	21,580	**19,322**	20,098
Total due to other banks	**38,192**	36,683	**36,371**	35,201

NOTE 9
TRADING INSTRUMENTS

Accounting policy

Trading instruments comprise of:
- Derivatives that are not in a qualifying hedge relationship.
- Securities that are classified as held for trading because they are acquired or incurred principally for the purpose of selling or repurchasing in the near term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

Trading instruments are measured at fair value through profit or loss.

	Group				Company			
	2018 Assets $m	2017 Assets $m	2018 Liabilities $m	2017 Liabilities $m	2018 Assets $m	2017 Assets $m	2018 Liabilities $m	2017 Liabilities $m
Trading derivatives	**24,997**	29,137	**22,422**	27,187	**25,996**	30,383	**25,863**	27,065
Trading securities	**53,231**	50,954	**-**	-	**46,965**	45,637	**-**	-
Total trading instruments	**78,228**	80,091	**22,422**	27,187	**72,961**	76,020	**25,863**	27,065

Further details of trading derivatives are disclosed in the below table.

	Group				Company			
	2018 Assets $m	2017 Assets $m	2018 Liabilities $m	2017 Liabilities $m	2018 Assets $m	2017 Assets $m	2018 Liabilities $m	2017 Liabilities $m
Foreign exchange rate-related contracts								
Spot and forward contracts	**5,764**	4,388	**5,199**	4,128	**5,156**	4,106	**4,702**	3,790
Cross currency swaps	**7,520**	9,384	**6,991**	9,789	**8,372**	9,696	**10,652**	9,941
Options / swaptions	**120**	69	**174**	63	**119**	68	**175**	63
Total foreign exchange rate-related contracts	**13,404**	13,841	**12,364**	13,980	**13,647**	13,870	**15,529**	13,794
Interest rate-related contracts								
Forward rate agreements	**3**	1	**3**	2	**3**	1	**3**	2
Swaps	**10,494**	14,386	**8,986**	12,262	**11,245**	15,599	**9,257**	12,322
Options / swaptions	**698**	600	**684**	587	**698**	600	**684**	587
Total interest rate-related contracts	**11,195**	14,987	**9,673**	12,851	**11,946**	16,200	**9,944**	12,911
Credit derivatives	**87**	77	**130**	126	**91**	82	**134**	131
Commodity derivatives	**236**	169	**198**	168	**237**	170	**198**	167
Other derivatives	**75**	63	**57**	62	**75**	61	**58**	62
Total trading derivatives	**24,997**	29,137	**22,422**	27,187	**25,996**	30,383	**25,863**	27,065

Further details of trading securities are disclosed in the below table.

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Government bonds, notes and securities	**28,623**	27,816	**26,043**	24,802
Semi-government bonds, notes and securities	**5,032**	5,079	**3,167**	4,303
Corporate / financial institution bonds, notes and securities	**18,152**	17,996	**16,333**	16,468
Other bonds, notes, securities and other assets	**1,424**	63	**1,422**	64
Total trading securities	**53,231**	50,954	**46,965**	45,637

NOTE 10
DEBT INSTRUMENTS

Accounting policy

Debt instruments are measured at fair value through other comprehensive income as they are held in a business model with the objective of collecting contractual cashflows or realising the asset through sale.

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Government bonds, notes and securities	**3,576**	2,927	**3,576**	2,927
Semi-government bonds, notes and securities	**21,011**	20,915	**21,011**	20,915
Corporate / financial institution bonds, notes and securities	**7,696**	7,951	**7,615**	7,876
Other bonds, notes and securities	**9,773**	10,338	**9,755**	10,311
Total debt instruments	**42,056**	42,131	**41,957**	42,029

NOTE 11
OTHER FINANCIAL ASSETS

Accounting policy

In certain circumstances the Group designates financial assets as measured at fair value through profit or loss. This option is applied where an accounting mismatch is significantly reduced or eliminated that would otherwise occur if the asset was measured on another basis.

Where assets are designated at fair value through profit or loss, they are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the income statement as they arise.

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Loans at fair value	**9,845**	14,596	**7,259**	10,926
Other financial assets at fair value	**196**	1,462	**1,322**	899
Total other financial assets	**10,041**	16,058	**8,581**	11,825

Loans

The maximum credit exposure of loans (excluding any undrawn facility limits) included in other financial assets is $9,845 million (2017: $14,596 million) for the Group and $7,259 million (2017: $10,926 million) for the Company. The cumulative change in fair value of the loans attributable to changes in credit risk amounted to a $82 million loss (2017: $116 million loss) for the Group and a $66 million loss (2017: $90 million loss) for the Company.

NOTE 12
LOANS AND ADVANCES

Accounting policy

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the origination of the loan or advance, which are primarily brokerage and origination fees. These costs are amortised over the estimated life of the loan. Subsequently, loans and advances are measured at amortised cost using the effective interest rate method, net of any provision for credit impairment.

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Loans and advances				
Housing loans	**339,540**	329,534	**301,603**	293,212
Other term lending	**200,024**	182,935	**166,122**	150,920
Asset and lease financing	**12,428**	11,674	**11,938**	11,214
Overdrafts	**5,821**	5,673	**3,697**	3,715
Credit card outstandings	**7,294**	7,409	**6,232**	6,365
Other lending	**6,822**	6,539	**6,367**	6,025
Total gross loans and advances	**571,929**	543,764	**495,959**	471,451
Deduct:				
Unearned income and deferred net fee income	**(435)**	(415)	**(497)**	(479)
Provision for credit impairment	**(3,513)**	(3,224)	**(2,954)**	(2,695)
Total net loans and advances	**567,981**	540,125	**492,508**	468,277

NOTE 13
DEPOSITS AND OTHER BORROWINGS

Accounting policy

Deposits and other borrowings are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost.

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Deposits				
Term deposits	**162,218**	159,861	**132,176**	131,279
On-demand and short-term deposits	**194,795**	199,245	**176,597**	182,103
Certificates of deposit	**42,316**	51,009	**42,316**	51,009
Deposits not bearing interest	**50,767**	47,247	**45,474**	42,566
Commercial paper & other borrowings	**25,317**	19,749	**24,322**	19,560
Securities sold under agreements to repurchase	**27,732**	23,493	**27,731**	23,493
Total deposits and other borrowings	**503,145**	500,604	**448,616**	450,010

NOTE 14
BONDS, NOTES AND SUBORDINATED DEBT

Accounting policy

Bonds, notes and subordinated debt are generally initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. Premiums, discounts and associated issue expenses are recognised using the effective interest method through the income statement from the date of issue.

	Group		Company	
	2018	2017	2018	2017
	$m	$m	$m	$m
Bonds, notes and subordinated debt				
Medium-term notes	**106,428**	89,815	**106,448**	89,833
Securitisation notes	**3,660**	3,099	**-**	-
Covered bonds	**22,703**	22,398	**22,731**	22,424
Subordinated medium-term notes	**6,931**	9,058	**6,931**	9,058
Other subordinated notes	**500**	501	**-**	-
Total bonds, notes and subordinated debt [(1)]	**140,222**	124,871	**136,110**	121,315
Issued bonds, notes and subordinated debt by currency				
AUD	**41,094**	35,887	**37,377**	32,806
USD	**42,856**	40,220	**42,989**	40,259
EUR	**32,872**	29,851	**32,833**	29,828
GBP	**9,586**	7,611	**9,604**	7,621
Other	**13,814**	11,302	**13,307**	10,801
Total bonds, notes and subordinated debt [(1)]	**140,222**	124,871	**136,110**	121,315

(1) *The balances includes net discounts / premium adjustments.*

Subordinated medium term notes

			Group		Company	
Currency	Notional amount [(1)]	Maturity / First optional call date	2018	2017	2018	2017
	m		$m	$m	$m	$m
AUD	950	Floating due 2017	**-**	950	**-**	950
GBP	350	Fixed due 2018	**-**	625	**-**	625
EUR	500	Fixed due 2018	**-**	777	**-**	777
EUR	750	Fixed due 2019	**1,215**	1,124	**1,215**	1,124
EUR	1,000	Fixed due 2020	**1,662**	1,586	**1,662**	1,586
AUD	1,100	Floating due 2020	**1,100**	1,100	**1,100**	1,100
HKD	1,137	Fixed due 2021	**194**	184	**194**	184
JPY	10,000	Fixed due 2021	**122**	113	**122**	113
AUD	150	Fixed due 2021	**148**	146	**148**	146
AUD	650	Floating due 2021	**650**	650	**650**	650
JPY	10,000	Fixed due 2021	**122**	113	**122**	113
SGD	450	Fixed due 2023	**451**	428	**451**	428
AUD	943	Floating due 2023	**936**	935	**936**	935
AUD	275	Fixed due 2027	**277**	272	**277**	272
AUD	20	Fixed due 2027	**27**	28	**27**	28
AUD	20	Fixed due 2028	**27**	27	**27**	27
Total			**6,931**	9,058	**6,931**	9,058

(1) *Subordinated medium term notes qualify as Tier 2 capital, in some cases subject to transitional Basel III treatment.*

NOTE 14 BONDS, NOTES AND SUBORDINATED DEBT (CONTINUED)

Other subordinated notes

On 17 December 2015, BNZ issued NZ$550 million of subordinated unsecured notes in New Zealand (BNZ Subordinated Notes), treated as Tier 2 capital, subject to an adjustment as the notes are issued by a subsidiary to third parties. The BNZ Subordinated Notes will mature in December 2025, but in certain circumstances (subject to APRA and RBNZ approval) BNZ may, at its option, repay some or all of the BNZ Subordinated Notes on 17 December 2020 or on any scheduled interest payment date thereafter. The BNZ Subordinated Notes pay a fixed rate of interest, reset on the optional redemption date.

NOTE 15
OTHER DEBT ISSUES

Accounting policy

Perpetual notes, convertible preference shares and convertible notes are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. Transaction costs are recognised using the effective interest method through the income statement from the date of issue.

	Group		Company	
	2018	2017	2018	2017
	$m	$m	$m	$m
Perpetual floating rate notes	**106**	147	**106**	147
Convertible preference shares and convertible notes	**6,052**	6,040	**6,052**	6,040
Total other debt issues	**6,158**	6,187	**6,158**	6,187

The table below highlights the key features of the Group's other debt issuances.

	Perpetual floating rate notes	Convertible preference shares	Convertible notes
Issued amount	USD250 million	NAB CPS - $1.51 billion NAB CPS II - $1.72 billion	NAB Capital Notes - $1.34 billion NAB Capital Notes 2 - $1.50 billion
Issued date	9 October 1986	NAB CPS - 20 March 2013 NAB CPS II - 17 December 2013	NAB Capital Notes - 23 March 2015 NAB Capital Notes 2 - 7 July 2016
Interest payment frequency	Semi-annually in arrears	Quarterly in arrears	Quarterly in arrears
Interest rate	0.15% per annum above the 6 month USD LIBOR	NAB CPS - 3.20% per annum above the 3 month BBSW NAB CPS II - 3.25% per annum above the 3 month BBSW	NAB Capital Notes - 3.50% per annum above the 3 month BBSW NAB Capital Notes 2 - 4.95% per annum above the 3 month BBSW
Maturity / conversion	No final maturity	Mandatory conversion: NAB CPS - 22 March 2021 NAB CPS II - 19 December 2022 Issuer conversion option: NAB CPS - 20 March 2019 NAB CPS II - 17 December 2020	Mandatory conversion: NAB Capital Notes - 23 March 2022 NAB Capital Notes 2 - 8 July 2024 Issuer conversion option: NAB Capital Notes - 23 March 2020 NAB Capital Notes 2 - 7 July 2022
Outstanding amount	USD76.64 million	NAB CPS - AUD1.51 billion NAB CPS II - AUD1.72 billion	NAB Capital Notes - AUD1.34 billion NAB Capital Notes 2 - AUD1.50 billion
Capital treatment	Tier 2 capital, subject to transitional Basel III arrangements	Additional Tier 1 capital	Additional Tier 1 capital

NOTE 16
OTHER FINANCIAL LIABILITIES

Accounting policy

In certain circumstances the Group applies the fair value measurement option to financial liabilities. This option is applied where an accounting mismatch is significantly reduced or eliminated that would otherwise occur if the liability was measured on another basis. Where liabilities are designated at fair value through profit or loss, they are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses (except for changes in own credit risk that are recognised in other comprehensive income) are recognised in the income statement as they arise.

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Bonds, notes and subordinated debt	**23,580**	22,869	**5,485**	4,320
Deposits and other borrowings				
On-demand and short-term deposits	**245**	204	**-**	-
Certificates of deposit	**1,642**	1,243	**-**	-
Term deposits	**949**	1,027	**-**	-
Commercial paper & other borrowings	**1,709**	2,236	**-**	-
Securities sold short	**2,027**	1,803	**1,862**	1,575
Other financial liabilities	**285**	249	**34**	35
Total other financial liabilities	**30,437**	29,631	**7,381**	5,930

The change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a gain for the 2018 financial year of $66 million (2017: $11 million gain) for the Group and a gain of $10 million (2017: $55 million gain) for the Company. The cumulative change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a loss of $132 million (2017: $198 million loss) for the Group and a loss of $83 million (2017: $93 million loss) for the Company. The contractual amount to be paid at the maturity of the bonds, notes and subordinated debt is $23,555 million (2017: $22,365 million) for the Group and $5,452 million (2017: $4,075 million) for the Company.

NOTE 17

PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST

Accounting policy

The Group applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:

- debt instruments measured at amortised cost and fair value through other comprehensive income
- loan commitments
- financial guarantee contracts.

Exposures are assessed on a collective basis in each stage unless there is sufficient evidence that one or more events associated with an exposure could have a detrimental impact on estimated future cash flows. Where such evidence exists, the exposure is assessed on an individual basis.

Stage	Measurement basis
12-months ECL (Stage 1)	The portion of lifetime ECL associated with the probability of default events occurring within the next 12 months.
Lifetime ECL – not impaired (Stage 2)	ECL associated with the probability of default events occurring throughout the life of an instrument.
Lifetime ECL – impaired (Stage 3)	Lifetime ECL, but interest revenue is measured based on the carrying amount of the instrument net of the associated ECL.

At each reporting date, the Group assesses the credit risk of exposures in comparison to the risk at initial recognition, to determine the stage that applies to the associated ECL measurement. If the credit risk of an exposure has increased significantly since initial recognition, the asset will migrate to Stage 2. If no significant increase in credit risk is observed, the asset will remain in Stage 1. Should an asset become impaired it will be transferred to Stage 3.

The Group considers reasonable and supportable information that is relevant and available without undue cost or effort, for this purpose. This includes quantitative and qualitative information and also forward looking analysis. Refer to *Note 19 Financial risk management*.

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.
- Financial assets that are credit impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Credit quality of financial assets

The Group's internally developed credit rating system utilises historical default data drawn from a number of sources to assess the potential default risk of lending, or other financial services products, provided to counterparties or customers. The Group has defined counterparty probabilities of default across retail and non-retail loans and advances. For non-retail, these can be broadly mapped to external credit rating agencies and comprise performing (pre-default) and non-performing (post-default) rating grades.

Inputs, assumptions and techniques used for estimating impairment

In assessing the impairment of financial assets under the expected credit loss model, the Group defines default in accordance with its Credit Policy and Procedures, which includes defaulted assets and impaired assets as described below. Default occurs when a loan obligation is 90 days or more past due, or when it is considered unlikely that the credit obligation to the Group will be paid in full without recourse to actions, such as realisation of security.

Impaired exposures under the expected credit loss model consist of:

- Retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days or more past due with insufficient security to cover principal and arrears of interest revenue.
- Unsecured portfolio managed facilities which are 180 days past due (if not written off).

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

- Non-retail loans that are contractually 90 days or more past due and / or sufficient doubt exists about the ability to collect principal and interest in a timely manner.
- Off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.

Assessment of significant increase in credit risk

- When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information, including expert credit risk assessment, forward looking information and analysis based on the Group's historical experience.
- For non-retail facilities, internally derived credit ratings, as described above, represent a key determinant of credit risk. The Group assigns each customer a credit rating at initial recognition based on available information. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date, relative to the credit rating at the date of initial recognition.
- Retail facilities use the number of days past due (DPD) or the relative change in probability of default at account level, to determine significant increase in credit risk.
- In addition, as a backstop, the Group considers that significant increase in credit risk occurs when an asset is more than 30 days past due (DPD).

Calculation of expected credit losses

- Expected credit losses (ECLs) are calculated using three main parameters i.e. a probability of default (PD), a loss given default (LGD) and an exposure at default (EAD). These parameters are generally derived from internally developed statistical models combined with historical, current and forward looking information, including macro-economic data.
- For accounting purposes, the 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.
- The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money.
- The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility.
- The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining life multiplied by LGD and EAD.

Incorporation of forward looking information

- The Group uses internal subject matter experts from Risk, Economics and Business Divisions to consider a range of relevant forward looking data, including macro-economic forecasts and assumptions, for the determination of unbiased general economic adjustments and any idiosyncratic or targeted portfolio / industry adjustments, in order to support the calculation of ECLs.
- Forward looking adjustments for both general macro-economic adjustments and more targeted portfolio / industry adjustments, reflect reasonable and supportable forecasts of potential future conditions that are not captured within the base ECL calculations.
- Macro-economic factors taken into consideration include, but are not limited to, unemployment, interest rates, gross domestic product, inflation, commercial and residential property prices, and require an evaluation of both the current and forecast direction of the macro-economic cycle.
- Incorporating forward looking information, including macro-economic forecasts, increases the degree of judgement required to assess how changes in these data points, will affect ECLs. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

Key judgements and estimates

- A collective assessment of impairment takes into account data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), and concentrations of risk and economic data (including the performance of different industries, sectors, geographies or key indicators of performance or emerging stress including unemployment, property prices, cash rate, demand / supply dynamics etc).
- Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for individual borrowers in respect of loans and advances. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors including forward looking information available at the time. As actual results may differ, future changes to the impairment allowance may be required.

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Credit impairment charge				
New and increased provisions (net of releases)	**1,057**	1,177	**903**	1,014
Write-backs of specific provisions	**(193)**	(242)	**(144)**	(195)
Recoveries of specific provisions	**(73)**	(111)	**(52)**	(88)
Total charge to the income statement	**791**	824	**707**	731

	Stage 1	Stage 2	Stage 3		
Group	12-mth ECL Collective provision $m	Lifetime ECL not credit impaired Collective provision $m	Lifetime ECL credit impaired Collective provision $m	Lifetime ECL credit impaired Specific provision $m	Total $m
Balance at 1 October 2016	329	1,657	422	706	3,114
Changes due to financial assets recognised in the opening balance that have					
Transferred to 12-months ECL - collective provision	329	(316)	(13)	-	-
Transferred to Lifetime ECL - collective provision	(44)	123	(79)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(3)	(42)	45	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(2)	(135)	(100)	237	-
New and increased provisions (net of releases)	(295)	538	124	810	1,177
Write-backs of specific provisions	-	-	-	(242)	(242)
Write-offs from specific provisions	-	-	-	(849)	(849)
Foreign currency translation and other adjustments	(1)	(6)	4	27	24
Balance at 30 September 2017	313	1,819	403	689	3,224
Changes due to financial assets recognised in the opening balance that have					
Transferred to 12-months ECL - collective provision	**296**	**(286)**	**(10)**	**-**	**-**
Transferred to Lifetime ECL - collective provision	**(58)**	**147**	**(89)**	**-**	**-**
Transfer to Lifetime ECL credit impaired - collective provision	**(2)**	**(50)**	**52**	**-**	**-**
Transfer to Lifetime ECL credit impaired - specific provision	**(2)**	**(34)**	**(114)**	**150**	**-**
New and increased provisions (net of releases)	**(225)**	**530**	**149**	**603**	**1,057**
Write-backs of specific provisions	**-**	**-**	**-**	**(193)**	**(193)**
Write-offs from specific provisions	**-**	**-**	**-**	**(573)**	**(573)**
Foreign currency translation and other adjustments	**2**	**(1)**	**-**	**(3)**	**(2)**
Balance at 30 September 2018	**324**	**2,125**	**391**	**673**	**3,513**

Group – Impact of movements in gross carrying amount on provision for expected credit losses

Provision for credit impairment reflects expected credit losses (ECL) measured using the three-stage approach. The following explains how significant changes in the gross carrying amount of loans and advances during the 2018 financial year have contributed to the changes in the provision for credit impairment for the Group under the expected credit loss model.

Overall, the total provision for credit impairment increased by $289 million compared to the balance at 30 September 2017.

Specific provisions decreased by $16 million compared to the balance at 30 September 2017, primarily due to a lower level of newly impaired assets.

Collective provisions increased by $305 million compared to the balance at 30 September 2017, comprised of:

Collective provision 12-months ECL (Stage 1) – increased by $11 million as a result of:

- $143 billion of loans and advances that were newly originated or migrated into Stage 1 from Stage 2 or Stage 3 due to credit quality improvement combined with collective provision charges for mortgage model enhancements to incorporate a more forward looking approach.

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

- Partially offset by $140 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period or migrated from Stage 1 to Stage 2 or Stage 3 due to deterioration in credit quality.

Collective provision Lifetime ECL – not credit impaired (Stage 2) – increased by $306 million as a result of:
- $39 billion in existing loans and advances migrating into Stage 2 as a result of transfer of loans and advances from Stage 1 or Stage 3.
- Forward looking adjustments (FLAs) raised for targeted sectors and collective provision charges for mortgage model enhancements to incorporate a more forward looking approach and other methodology changes.
- Partially offset by $38 billion of existing loans and advances exiting Stage 2 due to repayment, migrating to Stage 1 as a result of improved credit quality or migrating into Stage 3 due to deterioration in credit quality.

Collective provision Lifetime ECL – credit impaired (Stage 3) – decreased by $12 million as a result of:
- $4 billion of loans and advances that were repaid, migrated to Stage 1 or Stage 2 due to credit quality improvement or migrated to individually credit assessed with specific provisions raised.
- Partially offset by $3 billion of existing loans and advances that experienced movement in balance during the period or were transferred into Stage 3 from Stage 1 and Stage 2 due to credit quality deterioration.

	Stage 1	Stage 2	Stage 3		
Company	**12-mth ECL Collective provision $m**	**Lifetime ECL not credit impaired Collective provision $m**	**Lifetime ECL credit impaired Collective provision $m**	**Lifetime ECL credit impaired Specific provision $m**	**Total $m**
Balance at 1 October 2016	269	1,431	322	603	2,625
Changes due to financial assets recognised in the opening balance that have					
Transferred to 12-months ECL - collective provision	274	(263)	(11)	-	-
Transferred to Lifetime ECL - collective provision	(36)	86	(50)	-	-
Transferred to Lifetime ECL credit impaired - collective provision	(2)	(36)	38	-	-
Transferred to Lifetime ECL credit impaired - specific provision	(2)	(131)	(91)	224	-
New and increased provisions (net of releases)	(258)	444	119	709	1,014
Write-backs of specific provisions	-	-	-	(195)	(195)
Write-offs from specific provisions	-	-	-	(789)	(789)
Foreign currency translation and other adjustments	1	2	7	30	40
Balance at 30 September 2017	246	1,533	334	582	2,695
Changes due to financial assets recognised in the opening balance that have					
Transferred to 12-months ECL - collective provision	**220**	**(213)**	**(7)**	**-**	**-**
Transferred to Lifetime ECL - collective provision	**(46)**	**113**	**(67)**	**-**	**-**
Transferred to Lifetime ECL credit impaired - collective provision	**(2)**	**(44)**	**46**	**-**	**-**
Transferred to Lifetime ECL credit impaired - specific provision	**(1)**	**(30)**	**(99)**	**130**	**-**
New and increased provisions (net of releases)	**(159)**	**425**	**135**	**502**	**903**
Write-backs of specific provisions	**-**	**-**	**-**	**(144)**	**(144)**
Write-offs from specific provisions	**-**	**-**	**-**	**(500)**	**(500)**
Foreign currency translation and other adjustments	**2**	**1**	**-**	**(3)**	**-**
Balance at 30 September 2018	**260**	**1,785**	**342**	**567**	**2,954**

Company – Impact of movements in gross carrying amount on provision for expected credit losses

Provision for credit impairment reflects expected credit losses (ECL) measured using the three-stage approach. The following explains how significant changes in the gross carrying amount of loans and advances during the 2018 financial year have contributed to the changes in the provision for credit impairment for the Company under the expected credit loss model.

Overall, the total provision for credit impairment increased by $259 million compared to the balance at 30 September 2017.

Specific provisions decreased by $15 million compared to the balance at 30 September 2017, primarily due to a lower level of newly impaired assets.

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

Collective provisions increased by $274 million compared to the balance at 30 September 2017, comprised of:

Collective provision 12-months ECL (Stage 1) – increased by $14 million due to:
- $121 billion of loans and advances that were newly originated or migrated into Stage 1 from Stage 2 or Stage 3 due to credit quality improvement, combined with collective provision charges for mortgage model enhancements to incorporate a more forward looking approach.
- Partially offset by $119 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period or migrated from Stage 1 to Stage 2 or Stage 3 due to deterioration in credit quality.

Collective provision Lifetime ECL – not credit impaired (Stage 2) – increased by $252 million due to:
- $34 billion of existing loans and advances migrating into Stage 2 as a result of transfer of loans and advances from Stage 1 or Stage 3.
- Forward looking adjustments (FLAs) raised for targeted sectors and collective provision charges for mortgage model enhancements to incorporate a more forward looking approach and other methodology changes.
- Partially offset by $30 billion of loans exiting Stage 2 due to repayment, migrating to Stage 1 as a result of improved credit quality or migrating into Stage 3 due to deterioration in credit quality.

Collective provision Lifetime ECL – credit impaired (Stage 3) – increased by $8 million due to:
- $3 billion of existing loans and advances that were transferred into Stage 3 from Stage 1 and stage 2 due to credit quality deterioration or experienced movement in balance during the period.
- Partially offset by $3 billion of loan and advances that were repaid, migrated to Stage 1 or Stage 2 due to credit quality improvement or migrated to individually credit assessed with specific provisions raised.

Write-offs still under enforcement activity

The contractual amount outstanding on loans and advances that were written off during the 2018 financial year, and are still subject to enforcement activity was $47 million (2017: $84 million) for the Group and $39 million (2017: $76 million) for the Company.

Information about total impaired assets

The following table provides details on impaired assets. Gross amounts are shown before taking into account any collateral held or other credit enhancements. Refer to *Note 19 Financial risk management* for analysis of the credit quality of the Group's loans and advances.

	Group		Company	
	2018	**2017**	**2018**	**2017**
Summary of total impaired assets	**$m**	**$m**	**$m**	**$m**
Gross impaired assets [(1)]	**1,521**	1,724	**1,263**	1,263
Specific provision for credit impairment [(2)]	**(675)**	(691)	**(567)**	(582)
Net impaired assets [(3)]	**846**	1,033	**696**	681

(1) *Gross impaired assets include $16 million (2017: $34 million) for the Group and nil (2017: $nil) for the Company of gross impaired other financial assets at fair value, $10 million (2017: $20 million) of impaired off-balance sheet credit exposures for the Group and $7 million (2017: $18 million) for the Company, and $2 million (2017: $205 million) for the Group and $nil (2017: $nil) for the Company of impaired exposures currently assessed as no loss based on collective provision and security held.*

(2) *Specific provision for credit impairment includes $2 million (2017: $2 million) for the Group and $nil (2017: $nil) for the Company of fair value credit adjustments on other financial assets at fair value.*

(3) *The fair value of security in respect of impaired assets is $798 million (2017: $1,089 million) for the Group and $661 million (2017: $747 million) for the Company. Fair value amounts of security held in excess of the outstanding balance of individual impaired assets are not included in these amounts.*

NOTE 18
HEDGE ACCOUNTING

Accounting policy

The Group utilises the following three types of hedge relationship in managing its exposure to risk. At inception of all hedge relationships the Group documents the relationship between the hedging instrument and hedged item, the risk being hedged, the Group's risk management objective and strategy and how effectiveness will be measured throughout the hedge relationship.

	Cash flow hedge	Fair value hedge	Net investment hedge
Objective	To hedge changes to cash flows arising from interest rate and foreign currency risk.	To hedge fair value changes to recognised assets and liabilities arising from interest rate and foreign currency risk.	To hedge foreign currency exposure arising from foreign operations of the Group.
Methods for testing hedge effectiveness	Principally regression analysis. For portfolio hedges, capacity analysis to ensure interest cash flows arising from the portfolio of hedged items are in excess of the hedging instruments.	Regression analysis and the cumulative dollar offset method.	Regression analysis.
Potential sources of ineffectiveness	Mainly mismatches in terms of the hedged item and the hedging instrument. For example: frequency and timing of interest rate resets.	Mainly mismatches in terms of the hedged item and the hedging instrument as well as prepayment risk.	None expected as the net investment is only hedged to the extent of the notional or carrying amount of the hedging instrument.
Recognition of effective hedge portion	Fair value changes of the hedging instrument associated with the hedged risk are recognised in the cash flow hedge reserve in equity.	Fair value changes of the hedging instrument and those arising from the hedged risk on the hedged item are recognised in the income statement.	Fair value changes of the hedging instrument are recognised in the foreign currency translation reserve within equity.
Recognition of ineffective hedge portion	Recognised in the income statement as ineffectiveness arises.		
Hedging instrument expires, is sold, or when hedging criteria are no longer met	Transferred to the income statement as / when the hedged item affects the income statement. If the hedged item is no longer expected to occur the effective portion accumulated in equity is transferred to the income statement immediately.	Cumulative hedge adjustment to the hedged item is amortised to the income statement on an effective yield basis.	Cumulative fair value changes arising from the hedging instrument will remain in equity until the foreign operation is disposed.

Hedging strategy

The Group's hedging strategy is to manage its exposure to interest rate risk on a net variable basis in Australian dollars. For Australian denominated exposures this requires the Group to enter into interest rate swaps where the exposure is to a fixed interest rate. In some instances cash flow hedges of interest rate risk are also used to arrive at a net variable rate position. Foreign currency exposures are swapped to Australian dollars using cross-currency interest rate swaps. These may be float-to-float or fixed-to-float cross currency swaps depending on whether the underlying interest rate exposure is floating or fixed, respectively.

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

Not all exposures are automatically managed under the above strategy. Where a risk is within acceptable limits the Group may decide not to apply hedge accounting to that risk. Instead, the Group will manage its exposure under broader risk management processes.

Hedging instruments

The table below sets out hedging derivative assets and liabilities by the hedged risk and type of hedge relationship in which they are designated. The Group may designate separate derivatives to hedge different risk components of one hedged item. In such scenario the notional amount of hedging derivatives will, in sum, exceed the notional amount of the hedged item. In the case of cross-currency swaps the Group will often designate a single instrument to hedge both interest rate risk in a fair value hedge and currency risk in a cash flow hedge.

			Group				Company			
			2018 [1]		2017		2018 [1]		2017	
	Hedging instrument	Risk	Carrying amount $m	Notional $m	Carrying amount $m	Notional [2] $m	Carrying amount $m	Notional $m	Carrying amount $m	Notional [2] $m
Derivative assets										
Cash flow hedges	Interest rate swaps	Interest	83	190,263	160	73,674	82	184,112	152	68,966
Cash flow hedges	Cross-currency swaps	Currency	3,101	91,719	-	-	2,120	83,899	-	-
Cash flow hedges	Foreign exchange contracts	Currency	80	8,444	-	-	80	8,444	-	-
Fair value hedges	Interest rate swaps	Interest	134	17,255	256	37,107	64	14,097	227	37,338
Fair value and cash flow hedges [3]	Cross-currency swaps	Interest and currency	438	6,629	3,476	17,549	353	4,052	3,437	29,143
Cash flow hedges	Futures	Interest	4	12,921	-	17,489	4	8,617	-	11,972
Derivative liabilities										
Cash flow hedges	Interest rate swaps	Interest	86	150,117	115	81,289	86	145,559	115	76,787
Cash flow hedges	Cross-currency swaps	Currency	881	32,184	-	-	834	30,961	-	-
Cash flow hedges	Foreign exchange contracts	Currency	30	5,479	-	-	30	5,479	-	-
Fair value hedges	Interest rate swaps	Interest	135	75,050	756	63,428	136	53,646	782	49,263
Fair value and cash flow hedges [3]	Cross-currency swaps	Interest and currency	1,410	18,073	786	3,986	727	11,466	2,945	2,485
Cash flow hedges	Futures	Interest	5	15,597	-	15,178	5	11,705	-	8,143
Net investment hedges	Foreign exchange contracts	Currency	-	3	17	921	-	3	17	877
Financial liabilities										
Net investment hedges	Financial liabilities	Currency	1,846	1,846	1,746	1,746	-	-	-	-

(1) *Adoption of the hedge accounting requirements in AASB 9 Financial Instruments resulted in a significant increase in designation of derivatives for hedge accounting purposes.*
(2) *Comparative information has not been restated to reflect the effect of separate derivatives hedging different risk components of one hedged item.*
(3) *Prior to adoption of the hedge accounting requirements in AASB 9 Financial Instruments cross-currency swaps were designated in fair value hedges only.*

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

The following table shows the maturity profile of hedging derivatives based on their notional amounts.

	2018				2017			
	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Group								
Interest rate swaps	**287,095**	**116,959**	**28,631**	**432,685**	93,379	136,061	26,058	255,498
Foreign exchange contracts	**13,926**	**-**	**-**	**13,926**	921	-	-	921
Futures	**24,208**	**4,310**	**-**	**28,518**	27,138	5,529	-	32,667
Cross-currency swaps - interest and currency	**716**	**18,729**	**5,257**	**24,702**	1,430	7,356	6,636	15,422
Cross-currency swaps - currency	**16,498**	**69,713**	**37,692**	**123,903**	2,830	3,283	-	6,113
Company								
Interest rate swaps	**275,177**	**95,342**	**26,895**	**397,414**	81,524	124,953	25,877	232,354
Foreign exchange contracts	**13,926**	**-**	**-**	**13,926**	877	-	-	877
Futures	**16,012**	**4,310**	**-**	**20,322**	14,862	5,253	-	20,115
Cross-currency swaps - interest and currency	**716**	**14,249**	**553**	**15,518**	1,430	8,885	9,843	20,158
Cross-currency swaps - currency	**14,018**	**63,842**	**37,000**	**114,860**	5,062	6,408	-	11,470

The average rate for major currencies of the final exchange of cross-currency swaps designated in hedge relationships are as follows:

	Group		Company	
	2018	2017	2018	2017
USD:AUD	**1.296**	1.034	**1.311**	1.036
EUR:USD [1]	**n/a**	1.372	**n/a**	1.372
EUR:AUD	**1.460**	1.350	**1.491**	1.329
GBP:USD [1]	**n/a**	1.655	**n/a**	1.655
GBP:AUD	**1.752**	1.725	**1.795**	1.700

[1] *Following adoption of the hedge accounting requirements in AASB 9 Financial Instruments the Group only designates foreign currency translation to AUD as hedged risk.*

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

Hedged items

The balance of the cash flow hedge reserve, which represents the effective portion of the movements in the hedging instrument, is presented in *Note 27 Reserves*. The movements in hedging instruments recognised in other comprehensive income are reported in the Group's statement of other comprehensive income. There are no amounts recognised in the cash flow hedge reserve for which hedge accounting is no longer applied (2017: $nil).

The following table shows the carrying amount of fair value hedged items in hedge relationships, and the accumulated amount of fair value hedge adjustments in these carrying amounts. The Group does not hedge its entire exposure to a class of financial instruments, therefore the carrying amounts below do not equal the total carrying amounts disclosed in other notes. The accumulated amount of fair value hedge adjustments included in the carrying amount of hedged items that have ceased to be adjusted for hedging gains and losses is $nil (2017: $309 million) for the Group and $nil (2017: $287 million) for the Company.

	Group				Company			
	2018		2017 [1]		2018		2017 [1]	
	Carrying amount $m	Fair value hedge adjustments $m	Carrying amount $m	Fair value hedge adjustments $m	Carrying amount $m	Fair value hedge adjustments $m	Carrying amount $m	Fair value hedge adjustments $m
Debt instruments [2]								
Semi-government bonds, notes and securities	**18,795**	**-**	17,608	-	**18,795**	**-**	17,608	-
Loans and advances								
Housing loans	**11,825**	**41**	12,875	38	**-**	**-**	-	-
Other term lending	**1,902**	**(80)**	1,572	(12)	**1,902**	**(80)**	1,572	(12)
Due from controlled entities	**-**	**-**	-	-	**-**	**-**	12,939	593
Bonds, notes and subordinated debt								
Medium-term notes	**58,945**	**(616)**	45,752	293	**58,945**	**(616)**	45,752	293
Covered bonds [3]	**21,423**	**382**	21,182	567	**-**	**-**	12,913	593
Subordinated medium-term notes	**4,245**	**63**	2,050	155	**4,245**	**63**	2,050	155

(1) *Comparative information has been restated to exclude accrued interest from the carrying amount of hedged items, which better reflects hedging strategy and is consistent with the balance sheet presentation of the instruments.*

(2) *The carrying amount of debt instruments at fair value through other comprehensive income does not include a fair value hedge adjustment as the hedged asset is measured at fair value. The accounting for the hedge relationship results in a transfer from other comprehensive income to the income statement.*

(3) *The Company ceased to apply hedge accounting to covered bonds, which continue to be designated for hedge accounting purposes at the Group level.*

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

Fair value hedge relationships result in the following changes in value used as the basis for recognising hedge ineffectiveness for the period:

	Group		Company	
	2018	2017	2018	2017
	$m	$m	$m	$m
Gains / (losses) on hedging instruments	**(540)**	(2,566)	**(477)**	(2,008)
Gains / (losses) on hedged items attributable to the hedged risk	**1,011**	1,887	**795**	1,363
Hedge ineffectiveness recognised in the income statement [1]	**471**	(679)	**318**	(645)

[1] *Prior to adoption of the hedge accounting requirements in AASB 9 Financial Instruments this included economic hedges where hedge accounting has not been applied.*

A loss of $88 million for the Group and $53 million for the Company was recognised in the income statement related to hedge ineffectiveness from cash flow and net investment hedge relationships and cross-currency basis (2017: $1m loss from cash flow hedges for both the Group and the Company). Prior to adoption of the hedge accounting requirements in AASB 9 *Financial Instruments* hedge ineffectiveness from cross-currency basis was included in hedge ineffectiveness from fair value hedge relationships.

NOTE 19
FINANCIAL RISK MANAGEMENT

Overview of risk management framework

This overview is provided to aid the users of the financial statements to understand the context of the financial disclosures required under AASB 7 *Financial Instruments: Disclosures.*

Effective risk management, including having a Risk Management Strategy and sound risk culture, is essential to achieving NAB's vision to be Australia's leading bank, trusted by customers for exceptional service. Risk exists in all of the Group's business and the environment in which it operates.

NAB's Risk Management Framework (RMF) integrates risk management processes into the Group's strategic planning, appetite, policies, reporting and governance to ensure that risk is managed effectively and coherently across the Group. The Board is ultimately responsible for the Group's Risk Management Declaration under APRA's Prudential Standard CPS 220 *Risk Management* (albeit delegations of authority exist).

NAB's RMF is based on a 'Three Lines of Defence' model. Risk management accountabilities are allocated for risk ownership and functionally independent oversight and assurance across the three lines (see below). These act as the foundation for effective risk management across the organisation.

- **First Line** - Businesses own and manage risks and controls (including the identification and assessment of risk and controls) within their business and across the value chain in line with appetite.
- **Second Line** - The Risk function develops and maintains the risk management framework which enables the business to manage the risk and control environment within the Board approved risk appetite.
- **Third Line** - Internal Audit provides independent assurance over the RMF and its application by the First and Second Lines.

The Board, through the Risk Committee and executives, promotes awareness of a risk based culture within NAB and supports the establishment by management of an acceptable balance between risk and reward. The Group CRO provides a regular report to the Risk Committees including updates on material risk categories and meets regularly with the Board Risk Committee Chairman outside the scheduled meeting program.

The Risk Management Strategy is reviewed annually, or more frequently, if there is a material change to the size, business mix and complexity or a material change to NAB's risk profile. It is approved by the Board and submitted to APRA. The Board makes an annual declaration, at the end of the year, to APRA on the risk management in line with APRA's Prudential Standard CPS 220 *Risk Management*.

Further details of risk accountabilities across the Group are disclosed in the *Corporate Governance* section of the Group's website at www.nab.com.au/about-us/corporate-governance.

Credit Risk

Credit risk overview, management and control responsibilities

Credit is any transaction that creates an actual or potential obligation for a counterparty or a customer to pay the Group. Credit risk is the potential that a counterparty or customer will fail to meet its obligations to the Group in accordance with agreed terms. Bank lending activities account for most of the Group's credit risk, however other sources of credit risk also exist throughout the activities of the Group. These activities include the banking book, the trading book, and other financial instruments and loans (including, but not limited to, acceptances, placements, inter-bank transactions, trade financing, foreign exchange transactions, swaps, bonds and options), as well as in the extension of commitments and guarantees and the settlement of transactions.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to existing or potential counterparties or customers, groups of related counterparties or groups of related customers, and to geographical and industry segments. Such risks are monitored on an ongoing basis and are subject to annual or more frequent review.

In general, the Group does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on the balance sheet.

Exposure to credit risk is managed through regular analysis of the ability of existing or potential counterparties, customers, groups of related counterparties or groups of related customers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

favourable contracts is reduced by a master netting arrangement to the extent that if any counterparty failed to meet its obligations in accordance with agreed terms, all amounts with a counterparty are terminated and settled on a net basis.

Maximum exposure to credit risk

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees are called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of committed facilities.

The table below shows the Group's maximum exposure to credit risk on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements.

		Group		Company	
		2018	2017	2018	2017
	Footnote	$m	$m	$m	$m
Financial assets					
Cash and liquid assets	(a)	**49,269**	42,664	**48,947**	41,117
Due from other banks	(b)	**30,568**	37,066	**28,293**	35,030
Trading instruments	(c)	**78,228**	80,091	**72,961**	76,020
Debt instruments	(d)	**42,056**	42,131	**41,957**	42,029
Other financial assets	(e)	**10,041**	16,058	**8,581**	11,825
Hedging derivatives	(c)	**3,840**	3,892	**2,703**	3,816
Loans and advances	(e)	**571,929**	543,764	**495,959**	471,451
Due from customers on acceptances	(e)	**3,816**	6,786	**3,816**	6,786
Due from controlled entities	(f)	**-**	-	**100,483**	109,163
Other assets	(f)	**8,747**	7,649	**7,272**	5,920
Total		**798,494**	780,101	**810,972**	803,157
Contingent liabilities	(g)	**22,309**	19,572	**21,371**	18,607
Credit-related commitments	(g)	**156,631**	151,377	**136,602**	134,269
Total		**178,940**	170,949	**157,973**	152,876
Total credit risk exposure		**977,434**	951,050	**968,945**	956,033

(a) The balance of **Cash and liquid assets** which is exposed to credit risk is comprised primarily of reverse repurchase agreements and securities borrowing arrangements. These are collateralised with highly liquid securities and collateral is in excess of the borrowed or loaned amount.

(b) The balance of **Due from other banks** which is exposed to credit risk is comprised primarily of securities borrowing agreements and reverse repurchase agreements, as well as balances held with central supervisory banks and other interest earning assets. Securities borrowing agreements and reverse repurchase agreements are collateralised with highly liquid securities and the collateral is in excess of the borrowed or loaned amount.

Balances held with central supervisory banks and other interest earning assets that are due from other banks are managed based on the counterparty's creditworthiness. The Group will utilise master netting arrangements where possible to reduce its exposure to credit risk.

(c) At any one time, the maximum exposure to credit risk from **Trading instruments** and **Hedging derivatives** is limited to the current fair value of instruments that are favourable to the Group less collateral obtained. This credit risk is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

The Group uses documentation including International Swaps and Derivatives Association (ISDA) Master Agreements to document derivative activities. Under ISDA Master Agreements, if a default of a counterparty occurs, all contracts with the counterparty are terminated. They are then settled on a net basis at market levels current at the time of default. The Group also executes Credit Support Annexes in conjunction with ISDA Master Agreements.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk from over-the-counter trading and hedging derivatives is mitigated where possible through netting arrangements whereby derivative assets and liabilities with the same counterparty can be offset in certain circumstances. Derivatives that are cleared through a central clearing counterparty or an exchange have less credit risk than over-the-counter derivatives and are subject to relevant netting and collateral agreements.

Collateral is obtained against derivative assets, depending on the creditworthiness of the counterparty and / or the nature of the transaction.

(d) Debt instruments is generally comprised of Government, Semi-government, Corporate and Financial institution bonds, notes and securities. The amount of collateral held against such instruments will depend on the counterparty and the nature of the specific financial instrument.

The Group may utilise Credit Default Swaps (CDS), guarantees provided by central banks, other forms of credit enhancements or collateral in order to minimise the Group's exposure to credit risk.

(e) Other financial assets, Loans and advances and Due from customers on acceptances mainly comprise general lending and line of credit products. The distinction of classification reflects the type of lending product or is due to an accounting designation. These lending products will generally have a significant level of collateralisation depending on the nature of the product.

Other lending to non-retail customers may be provided on an unsecured basis or secured (partially or fully) by acceptable collateral defined in specific Group credit policy and business unit procedures. Collateral is generally comprised of business assets, inventories and in some cases personal assets of the borrower. The Group manages its exposure to these products by completing a credit evaluation to assess the customer's character, industry, business model and capacity to meet their commitments without distress. Collateral provides a secondary source of repayment for funds advanced in the event that a customer cannot meet their contractual repayment obligations. For amounts due from customers on acceptances the Group generally has recourse to guarantees, underlying inventories or other assets in the event of default which significantly mitigates the credit risk associated with accepting the customer's credit facility with a third party.

Housing loans are secured against residential property as collateral, and where applicable, Lenders Mortgage Insurance (LMI) is obtained by the Group (mostly in Australia) in order to cover any shortfall in outstanding loan principal and accrued interest. LMI is generally obtained for residential mortgages with a Loan to Valuation Ratio (LVR) in excess of 80%. The financial effect of these measures is that remaining credit risk on residential mortgage loans is minimal. Other retail lending products are mostly unsecured (e.g. credit card outstandings and other personal lending).

(f) The balance of **Other assets** which is exposed to credit risk includes investments relating to life insurance business, interest receivable accruals and other receivables. Interest receivable accruals are subject to the same collateral as the underlying borrowings. Other receivables will mostly be unsecured. There are typically no collateral or other credit enhancements obtained in respect of amounts **Due from controlled entities**.

(g) Contingent liabilities and credit-related commitments are comprised mainly of guarantees to customers, standby or documentary letters of credit, performance related contingencies and binding credit commitments. The Group will typically have recourse to specific assets pledged as collateral in the event of a default by a party for which the Group has guaranteed its obligations to a third party and therefore tend to carry the same credit risk as loans.

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss of an amount equal to the total unused commitments. However, the likely amount of loss is generally less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit commitments because, in general, longer term commitments have a greater degree of credit risk than shorter term commitments.

Offsetting financial assets and liabilities

The tables below illustrate the amounts of financial instruments that have been offset on the balance sheet and also those amounts that are subject to enforceable master netting arrangements or similar agreements (i.e. offsetting agreements and any related financial collateral). The tables excludes financial instruments not subject to offset and that are only subject to collateral arrangements (e.g. loans and advances).

The 'Net amounts' presented in the tables are not intended to represent the Group's actual exposure to credit risk, as the Group will utilise a wide range of strategies to mitigate credit risk in addition to netting and collateral arrangements.

The amounts recognised on the balance sheet comprise of the sum of the 'Net amounts reported on balance sheet' and 'Amounts not subject to enforceable netting arrangements' included in the tables below.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

	2018							
	Amount subject to enforceable netting arrangements							Amounts not subject to enforceable netting arrangements
	Effect of offsetting on balance sheet			Related amounts not offset				
Group	Gross amounts $m	Amount offset $m	Net amounts reported on balance sheet $m	Financial Instruments $m	Non-cash collateral $m	Cash collateral $m	Net Amount $m	$m
Derivative financial assets	49,221	25,164	24,057	12,301	513	4,695	6,548	4,780
Reverse repurchase agreements	71,899	14,374	57,525	-	57,525	-	-	-
Total assets	121,120	39,538	81,582	12,301	58,038	4,695	6,548	4,780
Derivative financial liabilities	46,681	25,164	21,517	12,301	434	5,557	3,225	3,465
Repurchase agreements	58,984	14,374	44,610	-	44,610	-	-	-
Total liabilities	105,665	39,538	66,127	12,301	45,044	5,557	3,225	3,465
Company								
Derivative financial assets	46,089	21,717	24,372	12,297	513	4,389	7,173	4,427
Reverse repurchase agreements	71,353	14,374	56,979	-	56,979	-	-	-
Total assets	117,442	36,091	81,351	12,297	57,492	4,389	7,173	4,427
Derivative financial liabilities	46,040	21,717	24,323	12,297	434	5,415	6,177	3,255
Repurchase agreements	58,714	14,374	44,340	-	44,340	-	-	-
Total liabilities	104,754	36,091	68,663	12,297	44,774	5,415	6,177	3,255

	2017							
	Amount subject to enforceable netting arrangements							Amounts not subject to enforceable netting arrangements
	Effect of offsetting on balance sheet			Related amounts not offset				
Group	Gross amounts $m	Amount offset $m	Net amounts reported on balance sheet $m	Financial Instruments $m	Non-cash collateral $m	Cash collateral $m	Net Amount $m	$m
Derivative financial assets	46,967	21,160	25,807	17,149	181	6,128	2,349	7,222
Reverse repurchase agreements	72,281	23,972	48,309	-	48,309	-	-	-
Total assets	119,248	45,132	74,116	17,149	48,490	6,128	2,349	7,222
Derivative financial liabilities	46,770	21,160	25,610	17,149	406	5,247	2,808	3,251
Repurchase agreements	67,417	23,972	43,445	-	43,445	-	-	-
Total liabilities	114,187	45,132	69,055	17,149	43,851	5,247	2,808	3,251
Company								
Derivative financial assets	46,375	19,182	27,193	17,274	181	5,833	3,905	7,006
Reverse repurchase agreements	71,978	23,972	48,006	-	48,006	-	-	-
Total assets	118,353	43,154	75,199	17,274	48,187	5,833	3,905	7,006
Derivative financial liabilities	46,977	19,182	27,795	17,274	406	5,062	5,053	3,129
Repurchase agreements	67,794	23,972	43,822	-	43,822	-	-	-
Total liabilities	114,771	43,154	71,617	17,274	44,228	5,062	5,053	3,129

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Derivative financial assets and liabilities

Derivative amounts will only be offset on the balance sheet where the Group has a legally enforceable right of offset in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The Group has applied offsetting to certain centrally cleared derivatives and their associated collateral amounts which were deemed to satisfy the AASB 132 *Financial Instruments: Presentation* requirements.

Reverse repurchase and repurchase agreements

Reverse repurchase and repurchase agreements will typically be subject to Global Master Repurchase Agreements (GMRAs) or similar agreements whereby all outstanding transactions with the same counterparty can only be offset and closed out upon a default or insolvency event. In some instances the agreement provides the Group with a legally enforceable right of offset in all circumstances. In such a case and where there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously, the amounts with that counterparty will be offset on the balance sheet.

Where the Group has a right of offset on default or insolvency only, the related non-cash collateral amounts comprise highly liquid securities, either obtained or pledged, which can be realised in the event of a default or insolvency by one of the counterparties. The value of such securities obtained or pledged must at least equate to the value of the exposure to the counterparty, therefore the net exposure is considered to be nil.

Credit risk exposure by risk grade

The tables below show significant exposures to credit risk to which the expected credit loss model is applied, for recognised and unrecognised financial assets, based on the following risk grades:

- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A- (internal rating 1 to 5).
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB- (internal rating 6 to 11).
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ (internal rating 12 to 23).
- Default: broadly corresponds with Standard & Poor's rating of D (internal rating 98 and 99).

	Stage 1 12-months ECL Not credit impaired		Stage 2 Lifetime ECL Not credit impaired		Stage 3 Lifetime ECL Credit impaired		Total	
	2018[(1)]	2017	2018[(1)]	2017	2018	2017	2018	2017
Group	$m	$m	$m	$m	$m	$m	$m	$m
Loans and advances [(2)]								
Senior investment grade	**157,179**	148,251	**1,037**	-	**-**	-	**158,216**	148,251
Investment grade	**315,356**	308,478	**9,326**	4,142	**-**	-	**324,682**	312,620
Sub-investment grade	**158,002**	163,655	**102,301**	82,123	**-**	-	**260,303**	245,778
Default	**-**	-	**2,130**	1,971	**5,538**	5,658	**7,668**	7,629
Total	**630,537**	620,384	**114,794**	88,236	**5,538**	5,658	**750,869**	714,278
Other financial assets [(3)]								
Senior investment grade	**41,860**	41,890	**-**	-	**-**	-	**41,860**	41,890
Investment grade	**1,054**	1,950	**164**	89	**-**	-	**1,218**	2,039
Sub-investment grade	**1,367**	2,413	**1,401**	2,980	**-**	-	**2,768**	5,393
Default	**-**	-	**-**	-	**26**	30	**26**	30
Total	**44,281**	46,253	**1,565**	3,069	**26**	30	**45,872**	49,352

(1) *Movements in loans and advances in Stage 1 and Stage 2 includes mortgage model enhancements to incorporate a more forward looking approach and other methodology changes during the September 2018 full year.*

(2) *Loans and advances includes contingent liabilities and credit-related commitments.*

(3) *Other financial assets represent debt instruments and acceptances.*

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Stage 1 12-months ECL Not credit impaired		Stage 2 Lifetime ECL Not credit impaired		Stage 3 Lifetime ECL Credit impaired		Total	
	2018[(1)]	2017	2018[(1)]	2017	2018	2017	2018	2017
Company	$m	$m	$m	$m	$m	$m	$m	$m
Loans and advances [(2)]								
Senior investment grade	**130,387**	124,148	**709**	-	**-**	-	**131,096**	124,148
Investment grade	**289,405**	281,401	**6,621**	2,972	**-**	-	**296,026**	284,373
Sub-investment grade	**135,404**	142,730	**84,411**	65,836	**-**	-	**219,815**	208,566
Default	**-**	-	**2,130**	1,971	**4,865**	4,834	**6,995**	6,805
Total	**555,196**	548,279	**93,871**	70,779	**4,865**	4,834	**653,932**	623,892
Other financial assets [(3)]								
Senior investment grade	**41,761**	41,802	**-**	-	**-**	-	**41,761**	41,802
Investment grade	**1,054**	1,936	**164**	89	**-**	-	**1,218**	2,025
Sub-investment grade	**1,367**	2,413	**1,401**	2,980	**-**	-	**2,768**	5,393
Default	**-**	-	**-**	-	**26**	30	**26**	30
Total	**44,182**	46,151	**1,565**	3,069	**26**	30	**45,773**	49,250

(1) *Movements in loans and advances in Stage 1 and Stage 2 includes mortgage model enhancements to incorporate a more forward looking approach and other methodology changes during the September 2018 full year.*
(2) *Loans and advances includes contingent liabilities and credit-related commitments.*
(3) *Other financial assets represent debt instruments and acceptances.*

Concentration of exposure

Concentration of credit risk exists when a number of counterparties are engaged in similar activities, or operate in the same geographical areas or industry sections and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions.

The diversification and size of the Group is such that its lending is widely spread both geographically and in terms of the types of industries it serves.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Industry concentration of financial assets

	Net loans and advances [1]		Other financial assets [2]		Contingent liabilities and credit-related commitments		Total	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Group								
Government and public authorities	**2,070**	2,177	**23,397**	23,124	**1,266**	1,257	**26,733**	26,558
Agriculture, forestry, fishing and mining	**36,789**	34,849	**547**	763	**11,232**	11,107	**48,568**	46,719
Financial, investment and insurance	**25,668**	23,005	**40,177**	46,591	**30,758**	24,431	**96,603**	94,027
Real estate - construction	**2,768**	2,704	**1**	3	**1,970**	2,150	**4,739**	4,857
Manufacturing	**10,283**	10,333	**43**	130	**7,013**	7,361	**17,339**	17,824
Instalment loans to individuals and other personal lending (including credit cards)	**10,301**	10,559	**-**	-	**15,369**	15,522	**25,670**	26,081
Real estate - mortgage	**338,872**	329,112	**9,113**	9,480	**54,724**	53,484	**402,709**	392,076
Asset and lease financing	**12,325**	11,563	**-**	-	**122**	119	**12,447**	11,682
Commercial property services	**67,049**	62,896	**2,171**	4,365	**14,203**	14,730	**83,423**	81,991
Other commercial and industrial	**72,136**	67,938	**991**	1,527	**42,283**	40,788	**115,410**	110,253
Total	**578,261**	555,136	**76,440**	85,983	**178,940**	170,949	**833,641**	812,068
Company								
Government and public authorities	**1,869**	1,973	**23,397**	23,124	**587**	638	**25,853**	25,735
Agriculture, forestry, fishing and mining	**22,435**	20,731	**547**	763	**9,049**	9,789	**32,031**	31,283
Financial, investment and insurance	**24,024**	20,985	**37,821**	44,481	**29,949**	23,883	**91,794**	89,349
Real estate - construction	**1,729**	1,760	**1**	3	**1,706**	1,945	**3,436**	3,708
Manufacturing	**7,157**	7,513	**43**	130	**5,193**	5,932	**12,393**	13,575
Instalment loans to individuals and other personal lending (including credit cards)	**8,935**	9,196	**-**	-	**12,774**	12,889	**21,709**	22,085
Real estate - mortgage	**300,994**	292,858	**9,094**	9,453	**50,452**	49,688	**360,540**	351,999
Asset and lease financing	**11,842**	11,108	**-**	-	**122**	119	**11,964**	11,227
Commercial property services	**58,494**	54,357	**2,171**	4,365	**12,019**	12,861	**72,684**	71,583
Other commercial and industrial	**62,785**	59,201	**992**	1,526	**36,122**	35,132	**99,899**	95,859
Total	**500,264**	479,682	**74,066**	83,845	**157,973**	152,876	**732,303**	716,403

[1] *Net loans and advances includes loans at fair value.*
[2] *Other financial assets represents debt instruments and acceptances.*

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Geographic concentrations of financial assets

	Australia		New Zealand		Other International	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Group						
Cash and liquid assets	**5,136**	8,682	**72**	146	**44,061**	33,836
Due from other banks	**11,301**	9,798	**2,461**	2,181	**16,806**	25,087
Trading instruments	**61,857**	59,150	**8,866**	7,620	**7,505**	13,321
Debt instruments	**30,665**	31,436	**-**	-	**11,391**	10,695
Other financial assets	**7,418**	11,125	**2,623**	4,887	**-**	46
Hedging derivatives	**3,823**	3,840	**1**	8	**16**	44
Loans and advances	**480,608**	456,147	**73,417**	69,427	**13,956**	14,551
Due from customers on acceptances	**3,816**	6,786	**-**	-	**-**	-
Other assets	**8,904**	2,369	**1,247**	1,503	**655**	5,344
Total	**613,528**	589,333	**88,687**	85,772	**94,390**	102,924
Company						
Cash and liquid assets	**4,922**	7,342	**-**	-	**44,025**	33,775
Due from other banks	**11,507**	9,948	**-**	-	**16,786**	25,082
Trading instruments	**65,389**	62,485	**-**	-	**7,572**	13,535
Debt instruments	**30,666**	31,436	**-**	-	**11,291**	10,593
Other financial assets	**7,259**	10,926	**-**	-	**1,322**	899
Hedging derivatives	**2,687**	3,772	**-**	-	**16**	44
Loans and advances	**479,031**	454,173	**-**	-	**13,477**	14,104
Due from customers on acceptances	**3,816**	6,786	**-**	-	**-**	-
Other assets	**7,840**	1,532	**-**	-	**360**	5,061
Total	**613,117**	588,400	**-**	-	**94,849**	103,093

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk

Market risk overview and management

Market risk stems from the Group's trading and balance sheet management activities, the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

Market risk is represented by the below two categories:

Traded Market Risk	Non-Traded Market Risk
Traded Market Risk is the potential for gains or losses to arise from trading activities undertaken by the Group as a result of movements in market prices. The trading activities of the Group are principally carried out by Corporate and Institutional Banking. Trading activities represent dealings that encompass both active management of market risk and supporting client sales businesses. The types of market risk arising from these activities include interest rate, foreign exchange, commodity, equity price, credit spread and volatility risk.	The Group has exposure to non-traded market risk, primarily Interest Rate Risk in the Banking Book (IRRBB). IRRBB is the risk that the Group's earnings or economic value will be affected or reduced by changes in interest rates. The sources of IRRBB are as follows: • Repricing risk, arising from changes to the overall level of interest rates and inherent mismatches in the repricing term of banking book items. • Yield curve risk, arising from a change in the relative level of interest rates for different tenors and changes in the slope or shape of the yield curve. • Basis risk, arising from differences between the actual and expected interest margins on banking book items over the implied cost of funds of those items. • Optionality risk, arising from the existence of stand-alone or embedded options in banking book items, to the extent that the potential for those losses is not included in the above risks.

Measurement of market risk

The Group primarily manages and controls market risk using Value at Risk (VaR), which is a standard measure used throughout the industry. VaR gauges the Group's possible daily loss based on historical market movements. The method involves multiple revaluations of the trading books using 550 days of historical pricing shifts. The pricing data is rolled daily. VaR is measured at a 99% confidence interval. This means that there is a 99% chance that the loss will not exceed the VaR estimate on any given day.

The Group employs other risk measures to supplement VaR, with appropriate limits to manage and control risks, and communicate the specific nature of market exposures to management, the Board Risk Committee and ultimately the Board. These supplementary measures include stress testing, loss, position and sensitivity limits.

The use of VaR methodology has limitations, which include:

- The historical data used to calculate VaR is not always an appropriate proxy for current market conditions. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than the VaR measure suggests.
- VaR methodology assumes that positions are held for one day and may underestimate losses on positions that cannot be hedged or reversed inside that timeframe.
- VaR is calculated on positions at the close of each trading day, and does not measure risk on intra-day positions.
- VaR does not describe the directional bias or size of the positions generating the risk.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Traded Market Risk

The table below shows the Group and Company VaR for the trading portfolio, including both physical and derivative positions:

	Group								Company							
	As at 30 September		Average value		Minimum value		Maximum value		As at 30 September		Average value		Minimum value		Maximum value	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Value at Risk at a 99% confidence level																
Foreign exchange risk	**8.2**	10.4	**8.3**	10.7	**5.3**	5.5	**12.5**	17.9	**7.8**	10.1	**8.3**	10.7	**5.2**	5.5	**12.6**	17.5
Interest rate risk	**9.3**	9.1	**9.9**	9.2	**8.3**	6.3	**12.2**	13.4	**8.2**	8.6	**9.6**	8.9	**8.1**	6.0	**13.9**	12.7
Volatility risk	**5.1**	5.1	**5.3**	4.3	**3.7**	1.4	**7.1**	10.5	**5.1**	5.1	**5.3**	4.3	**3.7**	1.4	**7.1**	10.5
Commodities risk	**0.4**	0.6	**0.3**	0.6	**0.1**	0.3	**1.0**	1.0	**0.4**	0.6	**0.3**	0.6	**0.1**	0.3	**1.0**	1.0
Credit risk	**1.1**	2.4	**1.6**	2.6	**0.9**	1.1	**2.6**	3.8	**1.0**	2.3	**1.4**	2.4	**0.8**	0.9	**2.4**	3.7
Inflation risk	**1.6**	1.8	**2.0**	2.3	**0.6**	1.8	**2.3**	3.2	**1.6**	1.8	**2.0**	2.3	**0.5**	1.8	**2.4**	3.2
Diversification benefit	**(12.2)**	(15.7)	**(14.3)**	(15.3)	**n/a**	n/a	**n/a**	n/a	**(11.4)**	(15.6)	**(14.1)**	(15.1)	**n/a**	n/a	**n/a**	n/a
Total Diversified VaR at 99% confidence interval	**13.5**	13.7	**13.1**	14.4	**10.7**	11.7	**16.7**	20.6	**12.7**	12.9	**12.8**	14.1	**10.2**	11.3	**15.8**	20.5
Other market risks	**0.5**	0.6	**0.6**	0.4	**0.5**	0.1	**0.8**	0.8	**0.5**	0.6	**0.6**	0.4	**0.5**	0.1	**0.8**	0.8
Total	**14.0**	14.3	**13.7**	14.8	**11.2**	11.8	**17.5**	21.4	**13.2**	13.5	**13.4**	14.5	**10.7**	11.4	**16.6**	21.3

Non-traded market risk - Balance sheet risk management

The principal objective of balance sheet risk management is to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Group's banking book, while ensuring the Group maintains sufficient liquidity to meet its obligations as they fall due.

Non-traded market risk – Interest rate risk management

IRRBB is measured, monitored, and managed from both an internal management and regulatory perspective. The risk management framework incorporates both market valuation and earnings based approaches in accordance with the IRRBB Policy and Prudential Practice Guides. Risk measurement techniques include VaR, Earnings at Risk (EaR), interest rate risk stress testing, repricing analysis, cash flow analysis and scenario analysis. The IRRBB regulatory capital calculation incorporates repricing, yield curve, basis, and optionality risk, embedded gains / losses and any inter-risk and / or inter-currency diversification. The IRRBB risk and control framework achieved APRA accreditation for the internal model approach under Basel II, and is used to calculate the IRRBB regulatory capital requirement.

Key features of the internal interest rate risk management model include:
- historical simulation approach utilising instantaneous interest rate shocks
- static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing)

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

- VaR and EaR are measured on a consistent basis
- 99% confidence level
- three month holding period
- EaR utilises a 12 month forecast period
- at least six years of business day historical data (updated daily)
- investment term for capital is modelled with an established benchmark term of between one and five years
- investment term for core 'Non-Bearing Interest' (non-interest bearing assets and liabilities) is modelled on a behavioural basis with a term that is consistent with sound statistical analysis.

The following table shows the Group and the Company aggregate VaR and EaR for the IRRBB:

	Group								Company							
	As at 30 September		Average value		Minimum value		Maximum value		As at 30 September		Average value		Minimum value		Maximum value	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Value at Risk																
Australia	**262.6**	232.9	**240.5**	176.5	**205.4**	142.4	**275.6**	232.9	**262.6**	232.9	**240.5**	176.5	**205.4**	142.4	**275.6**	232.9
New Zealand	**9.9**	8.7	**14.7**	13.3	**7.3**	7.8	**22.7**	24.0	**-**	-	**-**	-	**-**	-	**-**	-
Other International	**20.1**	18.5	**22.1**	20.9	**15.9**	14.4	**25.8**	27.3	**20.1**	18.5	**22.1**	20.9	**15.9**	14.4	**25.8**	27.3
Earnings at Risk [1]																
Australia	**45.4**	25.4	**32.5**	46.7	**18.5**	25.4	**46.3**	62.1	**45.4**	25.4	**32.5**	46.7	**18.5**	25.4	**46.3**	62.1
New Zealand	**7.1**	6.9	**7.4**	7.8	**3.8**	4.1	**11.9**	12.6	**-**	-	**-**	-	**-**	-	**-**	-
Other International	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-

[1] *EaR amounts calculated under the IRRBB model include Australian Banking and other overseas banking subsidiary books, however excludes offshore branches. The Australia Region amount shows a centralised Australian Banking EaR reported within NAB.*

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk and funding mix

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of wholesale borrowings and loan capital as they mature and the payment of interest on borrowings.

These risks are governed by the Group's funding and liquidity risk appetite which is set by the Board. This is managed by Group Treasury and measured and monitored by Group Balance Sheet and Liquidity Risk with oversight by the Group Asset and Liability Committee (GALCO). The Board has the ultimate responsibility to monitor and review the adequacy of the Group's funding and liquidity risk management framework and the Group's compliance with risk appetite.

Key principles adopted in the Group's approach to managing liquidity risk include:
- Monitoring the Group's liquidity position on a daily basis, using a combination of contractual and behavioural modelling of balance sheet and cash flow information.
- Maintaining a high quality liquid asset portfolio which supports intra-day operations and may be sold in times of market stress.
- Operating a prudent funding strategy which ensures appropriate diversification and limits maturity concentrations. The Group undertakes a conservative approach by imposing internal limits that are in addition to regulatory requirements.
- Maintaining a contingent funding plan designed to respond to the event of an accelerated outflow of funds from the Group.
- Requiring the Group to have the ability to meet a range of survival horizon scenarios, including name-specific and general liquidity stress scenarios.

The liquid asset portfolio held as part of these principles is well diversified by currency, tenor, counterparty and product type. The composition of the portfolio includes cash, Government, State Government and highly rated investment grade paper. The market value of total on balance sheet liquid assets held at 30 September 2018 was $125,854 million (2017: $123,733 million). In addition, the Group holds internal RMBS as a source of contingent liquidity. As at 30 September 2018 the amount of unencumbered internal RMBS after haircuts held was $40,160 million (2017:$43,546 million).

Funding mix

The Group's funding is comprised of a mix of deposits, term wholesale funding, short-term wholesale funding and equity. The Group manages this within risk appetite settings to ensure suitable funding of its asset base and to enable it to respond to changing market conditions and regulatory requirements.

The Group maintains a strong focus on stable deposits both from a growth and quality perspective and continues to source deposits as a key funding source for funded assets. The Group maintained the proportion of stable customer deposits as a source of funding in the 2018 financial year at 51% (2017: 51%) while reliance on other deposits reduced to 5% (2017: 7%).

The Group supplements deposit-raising via its term funding programmes, raising $28,435 million of term wholesale funding in the 2018 financial year (2017: $36,818 million) at a weighted average maturity of approximately 5.2 years to first call (2017: 4.8 years). The Group's issuance was in excess of term wholesale funding maturities in the 2018 financial year supporting management of future refinancing. In addition, throughout 2018, the Group continued to access international and domestic short-term wholesale markets.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table shows the Group's funding position as at 30 September:

Funded balance sheet

Funding sources [1]	2018 $m	2017 $m
Stable customer deposits [2]	**370,723**	360,234
Term funding greater than 12 months	**140,882**	133,857
Equity	**49,793**	48,398
Total stable funding	**561,398**	542,489
Short term wholesale funding	**102,801**	97,041
Term funding less than 12 months	**27,836**	22,989
Other deposits [3]	**38,251**	47,351
Total funding	**730,286**	709,870
Funded assets		
Liquid assets [4]	**110,540**	107,904
Other short term assets [5]	**29,707**	31,060
Total short term assets	**140,247**	138,964
Business and other lending [6]	**241,240**	231,203
Housing lending	**339,540**	329,534
Other assets [7]	**9,259**	10,169
Total long-term assets	**590,039**	570,906
Total funded assets	**730,286**	709,870

(1) *Excludes repurchase agreements, trading and hedging derivatives, insurance assets and liabilities and any accruals, receivables and payables that do not provide net funding.*
(2) *Includes operational deposits, non-financial corporate deposits and retail / SME deposits. Excludes certain offshore deposits.*
(3) *Includes non-operational financial institution deposits and certain offshore deposits.*
(4) *Regulatory liquid assets including HQLA and CLF eligible assets.*
(5) *Includes non-repo eligible liquid assets and trade finance loans.*
(6) *Excludes trade finance loans.*
(7) *Includes net derivatives, goodwill, property, plant and equipment and net of accruals, receivables and payables.*

Contractual maturity of assets and liabilities

The following tables show an analysis of contractual maturities of assets and liabilities at the reporting date. The Group expects that certain assets and liabilities will be recovered or settled at maturities which are different to their contractual maturities, including deposits where the Group expects as part of normal banking operations that a large proportion of these balances will roll over.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Less than 12 months		Greater than 12 months		No specific maturity		Total	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Group								
Assets								
Cash and liquid assets	**50,188**	43,826	**-**	-	**-**	-	**50,188**	43,826
Due from other banks	**30,414**	37,018	**154**	48	**-**	-	**30,568**	37,066
Trading instruments	**10,796**	11,396	**41,282**	39,532	**26,150**	29,163	**78,228**	80,091
Debt instruments	**11,648**	6,892	**30,408**	35,239	**-**	-	**42,056**	42,131
Other financial assets	**3,926**	6,103	**5,955**	9,755	**160**	200	**10,041**	16,058
Loans and advances	**102,350**	98,588	**458,337**	434,128	**7,294**	7,409	**567,981**	540,125
Due from customers on acceptances	**3,816**	6,786	**-**	-	**-**	-	**3,816**	6,786
All other assets	**10,363**	8,824	**3,010**	3,146	**10,259**	10,272	**23,632**	22,242
Total assets	**223,501**	219,433	**539,146**	521,848	**43,863**	47,044	**806,510**	788,325
Liabilities								
Due to other banks	**38,192**	36,683	**-**	-	**-**	-	**38,192**	36,683
Trading instruments	**-**	-	**-**	-	**22,422**	27,187	**22,422**	27,187
Other financial liabilities	**9,036**	9,934	**21,389**	19,589	**12**	108	**30,437**	29,631
Deposits	**439,848**	449,319	**10,248**	8,044	**-**	-	**450,096**	457,363
Other borrowings	**53,049**	43,241	**-**	-	**-**	-	**53,049**	43,241
Bonds, notes and subordinated debt	**25,436**	15,979	**114,786**	108,892	**-**	-	**140,222**	124,871
Other debt issues	**-**	-	**-**	-	**6,158**	6,187	**6,158**	6,187
All other liabilities	**8,424**	7,744	**1,974**	1,648	**2,824**	2,453	**13,222**	11,845
Total liabilities	**573,985**	562,900	**148,397**	138,173	**31,416**	35,935	**753,798**	737,008
Net (liabilities) / assets	**(350,484)**	(343,467)	**390,749**	383,675	**12,447**	11,109	**52,712**	51,317
Company								
Assets								
Cash and liquid assets	**49,717**	42,152	**-**	-	**-**	-	**49,717**	42,152
Due from other banks	**28,139**	34,982	**154**	48	**-**	-	**28,293**	35,030
Trading instruments	**6,976**	7,405	**38,836**	38,206	**27,149**	30,409	**72,961**	76,020
Debt instruments	**11,564**	6,891	**30,393**	35,138	**-**	-	**41,957**	42,029
Other financial assets	**2,771**	3,820	**5,810**	8,005	**-**	-	**8,581**	11,825
Loans and advances	**83,841**	80,579	**402,435**	381,333	**6,232**	6,365	**492,508**	468,277
Due from customers on acceptances	**3,816**	6,786	**-**	-	**-**	-	**3,816**	6,786
All other assets	**8,394**	7,270	**2,169**	2,796	**115,538**	122,331	**126,101**	132,397
Total assets	**195,218**	189,885	**479,797**	465,526	**148,919**	159,105	**823,934**	814,516
Liabilities								
Due to other banks	**36,371**	35,201	**-**	-	**-**	-	**36,371**	35,201
Trading instruments	**-**	-	**-**	-	**25,863**	27,065	**25,863**	27,065
Other financial liabilities	**736**	734	**6,633**	5,088	**12**	108	**7,381**	5,930
Deposits	**389,085**	401,463	**7,477**	5,495	**-**	-	**396,562**	406,958
Other borrowings	**52,054**	43,052	**-**	-	**-**	-	**52,054**	43,052
Bonds, notes and subordinated debt	**25,444**	15,530	**110,666**	105,785	**-**	-	**136,110**	121,315
Other debt issues	**-**	-	**-**	-	**6,158**	6,187	**6,158**	6,187
All other liabilities	**7,050**	6,939	**1,289**	3,270	**105,354**	109,998	**113,693**	120,207
Total liabilities	**510,740**	502,919	**126,065**	119,638	**137,387**	143,358	**774,192**	765,915
Net (liabilities) / assets	**(315,522)**	(313,034)	**353,732**	345,888	**11,532**	15,747	**49,742**	48,601

NOTE 20
FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting policy

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. Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Group has immediate access. An adjustment for credit risk (CVA) is also incorporated into the fair value as appropriate as well as an adjustment for funding costs (FVA) related to uncollateralised over-the-counter derivatives. The fair value measurement technique of each class of instrument is described below.

Instrument	Fair value measurement technique
Loans and advances	The fair value of loans and advances that are priced based on a variable rate with no contractual repricing tenor are assumed to equate to the carrying value. The fair value of all other loans and advances are generally calculated using discounted cash flow models based on the maturity of the loans and advances. The discount rates applied are based on interest rates at reporting date for similar types of loans and advances, if the loans and advances were performing at reporting date.
Deposits and other borrowings	The fair value of deposits and other borrowings that are non-interest-bearing, at call or at a fixed rate that reprice within six months of reporting date are assumed to equate to the carrying value. The fair value of other deposits and other borrowings is calculated using discounted cash flow models based on the deposit type and maturity.
Bonds, notes and subordinated debt and other debt issues	The fair values of bonds, notes and subordinated debt and other debt issues are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments and appropriate credit spreads, or in some instances are calculated based on market quoted prices when there is sufficient liquidity in the market.
Trading and hedging derivatives	The fair values of trading and hedging derivative assets and liabilities are obtained from quoted closing market prices at reporting date, discounted cash flow models or option pricing models as appropriate.
Trading instruments and debt instruments	The fair values of trading securities and debt instruments at fair value through other comprehensive income are based on quoted closing market prices at reporting date. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity.
Equity instruments	The fair value of equity instruments at fair value through other comprehensive income 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.
Other financial assets and liabilities	The fair values of other financial assets and liabilities are based on quoted closing market prices and data or valuation techniques, appropriate to the nature and type of the underlying instrument.

The carrying amounts of cash and liquid assets, due from and to other banks, due from customers on acceptances, other assets, other liabilities and amounts due from and to controlled entities, approximate their fair value as they are short-term in nature or are receivable or payable on demand. Guarantees, letters of credit, performance related contingencies and credit related commitments are generally not sold or traded and estimated fair values are not readily ascertainable. The fair value of these items are not calculated, as very few of the commitments extending beyond six months would commit the Group to a predetermined rate of interest, and the fees attaching to these commitments are the same as those currently charged for similar arrangements.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period in which the transfer occurs.

Key judgements and estimates

A significant portion of financial instruments are carried on the balance sheet at fair value.

Where no active market exists for a particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

Fair value hierarchy

The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

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

  Transfers into and out of Level 3 occur due to changes in whether the inputs to the valuation techniques are observable. Where inputs are no longer observable the fair value measurement is transferred into Level 3. Conversely, a measurement is transferred out of Level 3 when inputs become observable.

  The Group's exposure to fair value measurements based in full or in part on unobservable inputs is restricted to a small number of financial instruments, which comprise an insignificant component of the portfolios in which they belong. As such, a change in the assumption used to value the instruments as at 30 September 2018 attributable to reasonably possible alternatives would not have a material effect.

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments, carried at amortised cost

The financial assets and financial liabilities listed in the table below are carried at amortised cost. While this is the value at which the Group expects the assets to be realised and the liabilities to be settled, the table below includes their fair values as at 30 September:

	2018					2017				
	Carrying value $m	Level 1 $m	Level 2 $m	Level 3 $m	Fair Value $m	Carrying value $m	Level 1 $m	Level 2 $m	Level 3 $m	Fair Value $m
Group										
Financial assets										
Loans and advances	**567,981**	**-**	**6,094**	**562,362**	**568,456**	540,125	-	5,896	534,843	540,739
Financial liabilities										
Deposits and other borrowings	**503,145**	**-**	**503,428**	**-**	**503,428**	500,604	-	500,910	-	500,910
Bonds, notes and subordinated debt	**140,222**	**6,130**	**135,744**	**-**	**141,874**	124,871	9,341	117,788	-	127,129
Other debt issues	**6,158**	**6,157**	**106**	**-**	**6,263**	6,187	6,214	147	-	6,361
Company										
Financial assets										
Loans and advances	**492,508**	**-**	**3,748**	**489,294**	**493,042**	468,277	-	3,690	465,155	468,845
Financial liabilities										
Deposits and other borrowings	**448,616**	**-**	**448,704**	**-**	**448,704**	450,010	-	450,127	-	450,127
Bonds, notes and subordinated debt	**136,110**	**5,609**	**132,084**	**-**	**137,693**	121,315	8,829	114,690	-	123,519
Other debt issues	**6,158**	**6,157**	**106**	**-**	**6,263**	6,187	6,214	147	-	6,361

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements recognised on the balance sheet

	2018				2017			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Group								
Financial assets								
Trading instruments	29,752	48,234	242	78,228	27,811	52,186	94	80,091
Debt instruments	4,012	37,593	451	42,056	3,407	38,297	427	42,131
Other financial assets	-	10,041	-	10,041	-	16,058	-	16,058
Hedging derivatives	-	3,840	-	3,840	-	3,892	-	3,892
Investments relating to life insurance business	-	98	-	98	-	86	-	86
Equity instruments (1)	-	224	84	308	14	209	48	271
Total financial assets measured at fair value	33,764	100,030	777	134,571	31,232	110,728	569	142,529
Financial liabilities								
Trading instruments	-	22,197	225	22,422	4	27,107	76	27,187
Other financial liabilities	697	29,740	-	30,437	279	29,352	-	29,631
Hedging derivatives	-	2,547	-	2,547	-	1,674	-	1,674
Total financial liabilities measured at fair value	697	54,484	225	55,406	283	58,133	76	58,492
Company								
Financial assets								
Trading instruments	27,175	45,544	242	72,961	24,805	51,121	94	76,020
Debt instruments	4,012	37,494	451	41,957	3,407	38,195	427	42,029
Other financial assets	-	8,581	-	8,581	-	11,825	-	11,825
Hedging derivatives	-	2,703	-	2,703	-	3,816	-	3,816
Equity instruments (1)	-	224	47	271	9	209	21	239
Total financial assets measured at fair value	31,187	94,546	740	126,473	28,221	105,166	542	133,929
Financial liabilities								
Trading instruments	-	25,638	225	25,863	4	26,985	76	27,065
Other financial liabilities	697	6,684	-	7,381	279	5,651	-	5,930
Hedging derivatives	-	1,818	-	1,818	-	3,859	-	3,859
Total financial liabilities measured at fair value	697	34,140	225	35,062	283	36,495	76	36,854

(1) *Includes fair value through profit or loss instruments.*

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

There were no material transfers between Level 1 and Level 2 during the year for the Group and the Company.

The table below summarises changes in fair value classified as Level 3.

	Assets								Liabilities			
	Trading instruments		Debt instruments		Other financial assets		Equity instruments[(1)]		Trading instruments		Other financial liabilities	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Group	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Balance at the beginning of year	**94**	300	**427**	274	**-**	37	**48**	264	**76**	255	**-**	1
Gains / (losses) on assets and (gains) / losses on liabilities recognised:												
In profit or loss	**140**	(191)	**-**	-	**-**	2	**-**	-	**141**	(180)	**-**	-
In other comprehensive income	**-**	-	**(9)**	(51)	**-**	-	**(2)**	-	**-**	-	**-**	-
Purchases and issues	**-**	5	**79**	312	**-**	-	**25**	17	**-**	-	**-**	-
Sales and settlements	**-**	(3)	**(181)**	-	**-**	(24)	**(5)**	(24)	**-**	4	**-**	-
Transfers into Level 3	**-**	-	**201**	16	**-**	-	**18**	-	**-**	-	**-**	-
Transfers out of Level 3	**-**	(13)	**(65)**	(124)	**-**	(15)	**-**	(209)	**-**	-	**-**	(1)
Foreign currency translation adjustments	**8**	(4)	**(1)**	-	**-**	-	**-**	-	**8**	(3)	**-**	-
Balance at end of year	**242**	94	**451**	427	**-**	-	**84**	48	**225**	76	**-**	-
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:												
In profit or loss	**140**	(191)	**-**	-	**-**	2	**-**	-	**141**	(180)	**-**	-
In other comprehensive income	**-**	-	**(9)**	(51)	**-**	-	**(2)**	-	**-**	-	**-**	-
Company												
Balance at the beginning of year	**94**	300	**427**	274	**-**	37	**21**	231	**76**	255	**-**	1
Gains / (losses) on assets and (gains) / losses on liabilities recognised:												
In profit or loss	**140**	(191)	**-**	-	**-**	2	**-**	-	**141**	(180)	**-**	-
In other comprehensive income	**-**	-	**(9)**	(51)	**-**	-	**-**	(6)	**-**	-	**-**	-
Purchases and issues	**-**	5	**79**	312	**-**	-	**8**	7	**-**	-	**-**	-
Sales and settlements	**-**	(3)	**(181)**	-	**-**	(24)	**-**	-	**-**	4	**-**	-
Transfers into Level 3	**-**	-	**201**	16	**-**	-	**18**	-	**-**	-	**-**	-
Transfers out of Level 3	**-**	(13)	**(65)**	(124)	**-**	(15)	**-**	(209)	**-**	-	**-**	(1)
Foreign currency translation adjustments	**8**	(4)	**(1)**	-	**-**	-	**-**	(2)	**8**	(3)	**-**	-
Balance at end of year	**242**	94	**451**	427	**-**	-	**47**	21	**225**	76	**-**	-
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:												
In profit or loss	**140**	(191)	**-**	-	**-**	2	**-**	-	**141**	(180)	**-**	-
In other comprehensive income	**-**	-	**(9)**	(51)	**-**	-	**-**	(6)	**-**	-	**-**	-

(1) *Includes fair value through profit or loss instruments.*

NOTE 21
FINANCIAL ASSET TRANSFERS

The Group and the Company enter into transactions by which they transfer financial assets to counterparties or to special purpose entities (SPEs). Financial assets that do not qualify for derecognition are typically associated with repurchase agreements, covered bonds and securitisation program agreements. The following table sets out the carrying amount of financial assets that did not qualify for derecognition and their associated liabilities. Where relevant, the table also sets out the net position of the fair value of financial assets where the counterparty to the associated liabilities has recourse only to the transferred assets.

	Group						Company					
	Repurchase agreements		Covered bonds		Securitisation		Repurchase agreements		Covered bonds		Securitisation	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Carrying amount of transferred assets	**8,452**	10,838	**29,936**	36,357	**3,604**	2,600	**7,948**	10,634	**25,310**	30,794	**64,025**	67,474
Carrying amount of associated liabilities	**8,452**	10,838	**26,553**	26,576	**3,660**	2,603	**7,948**	10,634	**22,368**	21,882	**64,025**	67,522
For those liabilities that have recourse only to the transferred assets												
Fair value of transferred assets	**n/a**	n/a	**n/a**	n/a	**3,607**	2,603	**n/a**	n/a	**n/a**	n/a	**64,094**	67,556
Fair value of associated liabilities	**n/a**	n/a	**n/a**	n/a	**3,703**	2,650	**n/a**	n/a	**n/a**	n/a	**64,770**	68,749
Net position	**n/a**	n/a	**n/a**	n/a	**(96)**	(47)	**n/a**	n/a	**n/a**	n/a	**(676)**	(1,193)

OTHER ASSETS AND LIABILITIES

NOTE 22
GOODWILL AND OTHER INTANGIBLE ASSETS

Accounting policy

Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the aggregate of the fair value of the purchase consideration and the amount of any non-controlling interest in the entity over the fair value of the identifiable net assets at the date of the acquisition. If the fair value of the identifiable net assets of the acquired entity is greater than the aggregate of the fair value of the purchase consideration and amount of any non-controlling interest, the excess is recognised in the income statement on acquisition date and no goodwill is recognised.

Software costs

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised and recognised as an intangible asset where the software is controlled by the Group, and where it is probable that future economic benefits will flow from its use over more than one year. Capitalised software costs and other intangible assets are amortised on a systematic basis once deployed, using the straight-line method over their expected useful lives which are between three and ten years. Certain software assets are deployed on a progressive basis to match the benefits profile from the asset's use.

Impairment of intangible assets

Assets with an indefinite useful life, including goodwill, are not subject to amortisation and are tested on an annual basis for impairment, and additionally whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. For assets that do not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit (CGU) to which that asset belongs. Goodwill impairment is assessed at the group of CGUs that represents the lowest level within the Group at which goodwill is maintained for internal management purposes, which is at the segment level.

Recoverable amounts of CGUs

The recoverable amount of a CGU is determined using a value in use calculation. Assumptions for determining the recoverable amount of each CGU are based on past experience and expectations for the future. Cash flow projections are based on five year management approved forecasts which are then extrapolated using a constant growth rate for up to a further five years. In the final year a terminal growth rate is applied in perpetuity. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each CGU.

The discount rate reflects the market determined, risk-adjusted, post-tax discount rate and is adjusted for specific risks relating to the CGUs and the countries in which they operate. Terminal value growth rate represents the growth rate applied to extrapolate cash flows beyond the forecast period. These growth rates are based on forecast assumptions of the CGUs' long-term performance in their respective markets.

Key judgements and estimates

The determination of the fair value of assets and liabilities of acquired businesses requires the exercise of management judgement. Goodwill is allocated to disposed operations on the basis of the relative values of the disposed and retained operations and this also requires management judgement. Different fair values would result in changes to the goodwill balance and to the post-acquisition performance of the acquisition, or in the case of a disposal, the loss on sale.

Goodwill is assessed for impairment annually, or more frequently if there is indication that goodwill may be impaired. Determination of appropriate cash flows and discount rates for the calculation of value in use is subjective.

NOTE 22 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Goodwill	**2,863**	2,862	**-**	-
Internally generated software	**2,821**	2,608	**2,388**	2,274
Acquired software	**74**	98	**57**	87
Other acquired intangible assets [(1)]	**29**	33	**-**	-
Total goodwill and other intangibles assets	**5,787**	5,601	**2,445**	2,361
At cost	**8,908**	8,397	**4,777**	4,351
Deduct: Accumulated amortisation / impairment losses	**(3,121)**	(2,796)	**(2,332)**	(1,990)
Total goodwill and other intangibles assets	**5,787**	5,601	**2,445**	2,361

[(1)] *Other acquired intangible assets include brand names and the value of business and contracts in force.*

Reconciliation of movements in goodwill and other intangible assets

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Goodwill				
Balance at beginning of year	**2,862**	2,913	**-**	-
Disposals from sale of controlled entities	**-**	(50)	**-**	-
Foreign currency translation adjustments	**1**	(1)	**-**	-
Balance at end of year	**2,863**	2,862	**-**	-
Internally generated software				
Balance at beginning of year	**2,608**	2,207	**2,274**	1,971
Additions from internal development	**793**	750	**609**	586
Disposals, impairments and write-offs	**(171)**	(20)	**(164)**	(19)
Amortisation	**(408)**	(324)	**(331)**	(264)
Foreign currency translation adjustments	**(1)**	(5)	**-**	-
Balance at end of year	**2,821**	2,608	**2,388**	2,274

Goodwill allocation to cash-generating units

The key assumptions used in determining the recoverable amount of CGUs, to which goodwill has been allocated, are as follows:

	Goodwill		Discount rate per annum	Terminal growth rate per annum
	2018 $m	2017 $m	2018 %	2018 %
Reportable segments				
Business and Private Banking	**68**	68	**10.5**	**4.8**
Consumer Banking and Wealth	**2,537**	2,536	**10.5**	**4.8**
New Zealand Banking	**258**	258	**11.0**	**4.7**
Total goodwill	**2,863**	2,862	**n/a**	**n/a**

NOTE 23
OTHER ASSETS

	Group		Company	
	2018	2017	2018	2017
	$m	$m	$m	$m
Cash collateral placed with third parties	**4,196**	3,209	**3,885**	2,765
Accrued interest receivable	**1,182**	981	**1,038**	832
Prepayments	**222**	196	**190**	161
Receivables	**503**	642	**140**	314
Other debt instruments at amortised cost	**374**	584	**-**	1
Equity instruments at fair value through other comprehensive income	**290**	271	**253**	239
Investment in associates - MLC Limited	**544**	549	**-**	-
Other	**3,412**	3,014	**2,681**	2,354
Total other assets	**10,723**	9,446	**8,187**	6,666

NOTE 24
PROVISIONS

Accounting policy

Provisions

Provisions are recognised when a legal or constructive obligation exists as a result of a past event, it is probable that an outflow of economic benefits will be necessary to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are not discounted to the present value of their expected net future cash flows except where the time value of money is material.

Operational risk event losses

Provisions for operational risk event losses are raised for non-lending losses which include losses arising from specific legal actions not directly related to amounts of principal outstanding for loans and advances, and losses arising from forgeries, frauds and the correction of operational issues.

Restructuring costs

Provisions for restructuring costs include provisions for costs incurred but not yet paid and future costs that will arise as a direct consequence of decisions already made. A provision for restructuring costs is only made where the Group has made a commitment and entered into an obligation such that the Group has no realistic alternative but to carry out the restructure and make future payments to settle the obligation. A provision for restructuring costs is only recognised when a detailed plan has been approved and the restructuring has either commenced or has been publicly announced. This includes the cost of employees termination benefits and surplus lease space. Costs related to ongoing activities and future operating losses are not provided for.

Key judgements and estimates

Provisions other than loan impairment

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs, customer-related remediation and litigation provisions. Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows. The measurement of these provisions involves the exercise of management judgements about the ultimate outcomes of the transactions. Payments that are expected to be incurred after more than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

From time to time the Group is exposed to contingent risks and liabilities arising from the conduct of its business including (a) actual and potential disputes, claims and legal proceedings; (b) investigations into past conduct, including actual and potential regulatory breaches; and (c) contracts that involve giving contingent commitments. There are contingent liabilities in respect of all these matters. Where appropriate, provisions have been made. The aggregate potential liability of the Group in relation to

NOTE 24 PROVISIONS (CONTINUED)

these matters cannot be accurately assessed. Refer to *Note 29 Contingent liabilities and credit commitments* for further information.

	Group		Company	
	2018	2017	2018	2017
	$m	$m	$m	$m
Employee entitlements	**979**	952	**798**	772
Operational risk event losses	**699**	785	**600**	755
Restructuring	**285**	-	**253**	-
Other	**233**	224	**228**	207
Total provisions	**2,196**	1,961	**1,879**	1,734

Reconciliation of movements in provisions

	Group		Company	
	2018	2017	2018	2017
	$m	$m	$m	$m
Operational risk event losses				
Balance at beginning of year	**785**	12	**755**	5
Provisions made	**1,018**	1,022	**950**	994
Payments out of provisions	**(1,157)**	(271)	**(1,147)**	(268)
Provisions no longer required and net foreign currency movements	**53**	22	**42**	24
Balance at end of year	**699**	785	**600**	755
Restructuring provision				
Provisions made	**568**	-	**516**	-
Payments out of provisions	**(283)**	-	**(263)**	-
Balance at end of year	**285**	-	**253**	-

In 2018, the payments out of provisions for operational risk event losses mainly relates to CYBG discontinued operations. Refer to *Note 37 Discontinued operations* for further details.

NOTE 25
OTHER LIABILITIES

	Group		Company	
	2018	2017	2018	2017
	$m	$m	$m	$m
Accrued interest payable	**2,550**	2,283	**2,177**	1,944
Payables and accrued expenses	**2,958**	3,119	**2,184**	2,721
Cash collateral received from third parties	**1,398**	1,045	**1,396**	1,044
Other	**1,470**	1,533	**1,351**	1,233
Total other liabilities	**8,376**	7,980	**7,108**	6,942

CAPITAL MANAGEMENT

NOTE 26
CONTRIBUTED EQUITY

In accordance with the *Corporations Act 2001* (Cth), the Company does not have authorised capital and all ordinary shares have no par value. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are included within equity. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held at shareholders' meetings. In the event of a winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any residual proceeds of liquidation.

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Issued and paid-up ordinary share capital				
Ordinary shares, fully paid	**33,062**	31,707	**32,276**	30,921
Other contributed equity				
National Income Securities	**1,945**	1,945	**1,945**	1,945
Trust Preferred Securities	**975**	975	**-**	-
Total contributed equity	**35,982**	34,627	**34,221**	32,866

Reconciliation of movement in ordinary shares

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Balance at beginning of year	**31,707**	30,968	**30,921**	30,182
Shares issued:				
Dividend reinvestment plan	**1,182**	569	**1,182**	569
Transfer from equity-based compensation reserve	**173**	170	**173**	170
Balance at end of year	**33,062**	31,707	**32,276**	30,921

NOTE 26 CONTRIBUTED EQUITY (CONTINUED)

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

	Company	
	2018 No. '000	2017 No. '000
Ordinary shares, fully paid		
Balance at beginning of year	**2,685,469**	2,656,976
Shares issued:		
Dividend reinvestment plan	**40,803**	19,794
Bonus share plan	**1,984**	2,203
Employee share plans	**4,859**	6,249
Performance rights	**986**	241
Paying up of partly paid shares	**18**	6
Total ordinary shares, fully paid	**2,734,119**	2,685,469
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	**43**	49
Paying up of partly paid shares	**(18)**	(6)
Total ordinary shares, partly paid to 25 cents	**25**	43
Total ordinary shares (including treasury shares)	**2,734,144**	2,685,512
Less: Treasury shares	**(7,800)**	(9,643)
Total ordinary shares (excluding treasury shares)	**2,726,344**	2,675,869

National Income Securities

On 29 June 1999, the Company issued 20,000,000 National Income Securities (NIS) at $100 each. These securities are stapled securities, comprising one fully paid note of $100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (NIS preference share). The amount unpaid on a NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the Australian 3 month bank bill rate plus 1.25% per annum, payable quarterly in arrears.

With the prior written consent of APRA, the Company may redeem each note for $100 (plus any accrued distributions) and buy back or cancel the NIS preference share stapled to the note for no consideration. NIS have no maturity date and are quoted on the ASX. NIS qualify as Additional Tier 1 capital, subject to transitional Basel III treatment.

Trust Preferred Securities

On 29 September 2003, the Group raised £400 million through the issue, by National Capital Trust I, of 400,000 Trust Preferred Securities at £1,000 each, to be used by the Company's London branch. Trust Preferred Securities qualify as Additional Tier 1 capital, subject to transitional Basel III treatment. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until 17 December 2018 (the first optional redemption date), equal to 5.62% per annum. Refer to *Note 38 Events subsequent to reporting date* for further detail.

NOTE 27
RESERVES

Accounting policy

Foreign currency translation reserve

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). Exchange differences arising on translation of the Group's foreign operations, any offsetting gains or losses on hedging the net investment and any associated tax effect are reflected in the foreign currency translation reserve. A cumulative credit balance in this reserve would not normally be regarded as being available for payment of dividends until such gains are realised and recognised in the income statement on sale or disposal of the foreign operation.

The results and financial position of all Group entities that have a functional currency different from Australian dollar are translated into Australian dollars as follows:
- assets and liabilities are translated at the closing exchange rate at the date of the balance sheet
- income and expenses are translated at average exchange rates for the period, unless the average is not a reasonable approximation
- all resulting exchange differences are recognised in the foreign currency translation reserve.

Asset revaluation reserve

The asset revaluation reserve records revaluation increments and decrements arising from the revaluation of land and buildings.

Cash flow hedge reserve and cost of hedging reserve

The cash flow hedge reserve records the effective portion of changes in the fair valuation of derivatives designated as cash flow hedging instruments. The cost of hedging reserve records movements in forward points on a forward contract and cross-currency basis on cross-currency swaps that have been removed from hedge relationships and amortised over the life of the hedge. The cumulative movements will reduce to nil by maturity of the hedging instrument.

Equity-based compensation reserve

The equity-based compensation reserve records the value of equity benefits provided to employees as part of their remuneration.

General reserve for credit losses

APRA Prudential Standard APS 220 *Credit Quality* requires a reserve to be held to cover credit losses estimated but not certain to arise in the future over the full life of all individual facilities. The general reserve for credit losses (GRCL) is calculated using a prudential expected loss methodology that differs to that used for AASB 9 *Financial Instruments* expected credit loss provisions. The GRCL represents an appropriation of retained profits to non-distributable reserves when the regulatory reserve is greater than the accounting provision. The purpose of the GRCL is to provide the Group with freely available capital which can be used to meet credit losses that may subsequently materialise.

Debt instruments at fair value through other comprehensive income reserve

Debt instruments at fair value through other comprehensive income reserve includes all changes in the fair value of investments in debt instruments except for impairment based on the three-stage expected credit loss model, foreign exchange gains and losses and interest income. The changes recognised in reserve are transferred to profit or loss when the asset is derecognised or impaired.

Equity instruments at fair value through other comprehensive income reserve

Investments in equity instruments that are neither held for trading nor contingent consideration recognised by the Group in a business combination to which AASB 3 *Business Combinations* applies are measured at fair value through other comprehensive income, where an irrevocable election has been made by management. Amounts in the reserve are subsequently transferred to retained earnings, and not profit or loss, when the asset is derecognised. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

NOTE 27 RESERVES (CONTINUED)

Reserves

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Foreign currency translation reserve	**(343)**	(338)	**(227)**	(241)
Asset revaluation reserve	**82**	83	**-**	-
Cash flow hedge reserve	**10**	46	**(12)**	5
Cost of hedging reserve	**(53)**	-	**(1)**	-
Equity-based compensation reserve	**243**	273	**243**	273
Debt instruments at fair value through other comprehensive income reserve	**22**	89	**22**	89
Equity instruments at fair value through other comprehensive income reserve	**85**	84	**83**	64
Total reserves	**46**	237	**108**	190

Foreign currency translation reserve

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
Balance at beginning of year	**(338)**	(71)	**(241)**	(209)
Currency adjustments on translation of foreign operations, net of hedging	**56**	(269)	**14**	(32)
Transfer to the income statement on disposal of foreign operations	**(62)**	(10)	**-**	-
Tax on foreign currency translation reserve	**1**	12	**-**	-
Balance at end of year	**(343)**	(338)	**(227)**	(241)

NOTE 28
DIVIDENDS AND DISTRIBUTIONS

2018	Amount per share cents	Total amount $m
Final dividend declared in respect of the year ended 30 September 2017	**99**	**2,659**
Interim dividend declared in respect of the year ended 30 September 2018	**99**	**2,696**
Deduct: Bonus shares in lieu of dividend	**n/a**	**(56)**
Dividends paid by the Company during the year ended 30 September 2018	**n/a**	**5,299**
Add: Dividends paid to non-controlling interests in controlled entities	**n/a**	**4**
Dividends paid by the Group (before dividend reinvestment plan)	**n/a**	**5,303**
2017		
Final dividend declared in respect of the year ended 30 September 2016	99	2,630
Interim dividend declared in respect of the year ended 30 September 2017	99	2,649
Deduct: Bonus shares in lieu of dividend	n/a	(63)
Dividends paid by the Company during the year ended 30 September 2017	n/a	5,216
Add: Dividends paid to non-controlling interests in controlled entities	n/a	5
Dividends paid by the Group (before dividend reinvestment plan)	n/a	5,221

Franked dividends declared or paid during 2018 were fully franked at a tax rate of 30% (2017: 30%).

Final dividend

On 1 November 2018, the directors declared the following dividend:

	Amount per share cents	Total amount $m	Franked amount per share %
Final dividend declared in respect of the year ended 30 September 2018	99	**2,707**	100

The final 2018 ordinary dividend is payable on 14 December 2018. The Group will offer a 1.5% discount on the Dividend Reinvestment Plan, with no participation limit. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2018 and will be recognised in subsequent financial reports.

Australian franking credits

The franking credits available to the Group at 30 September 2018, after allowing for Australian tax payable in respect of the current reporting period's profit and the receipt of dividends recognised as a receivable at reporting date, are estimated to be $844 million (2017: $1,115 million). Franking credits to be utilised as a result of the payment of the proposed final dividend are $1,160 million (2017: $1,139 million). The Company's franking account fluctuates during the year as a result of the timing of income tax instalment and dividend payments. While the franking account balance fluctuates during the year, a surplus is only required as at 30 June each year for the purpose of complying with Australian income tax legislation. The Company currently expects to continue to pay fully franked dividends on ordinary shares and frankable hybrids, although franking is not guaranteed.

New Zealand imputation credits

The Company is able to attach available New Zealand imputation credits to dividends paid. As a result, New Zealand imputation credits of NZ$0.15 per share will be attached to the final 2018 ordinary dividend payable by the Company. New Zealand imputation credits are only relevant for shareholders who are required to file New Zealand income tax returns.

Distributions on other equity instruments

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
National Income Securities	**60**	60	**60**	60
Trust Preferred Securities	**40**	38	**-**	-
Total distributions paid	**100**	98	**60**	60

UNRECOGNISED ITEMS

NOTE 29

CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

Financial assets pledged

Financial assets are pledged as collateral predominantly under repurchase agreements with other banks. The financial assets pledged by the Group are strictly for the purpose of providing collateral for the counterparty. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities, as well as requirements determined by exchanges where the Group acts as an intermediary. Repurchase agreements that do not qualify for derecognition are reported in *Note 21 Financial asset transfers*.

Contingent liabilities

Bank guarantees and letters of credit

The Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. The Group has four principal types of guarantees:

- bank guarantees
- standby letters of credit
- documentary letters of credit
- performance-related contingencies.

The Group considers all bank guarantees and letters of credit as "at call" for liquidity management purposes because it has no control over when the holder might call upon the instrument.

	Group		Company	
	2018	2017	2018	2017
	$m	$m	$m	$m
Bank guarantees and letters of credit				
Bank guarantees	**5,596**	4,683	**5,568**	4,645
Standby letters of credit	**5,257**	5,456	**5,257**	5,456
Documentary letters of credit	**1,002**	750	**669**	408
Performance-related contingencies	**10,454**	8,683	**9,877**	8,098
Total bank guarantees and letters of credit	**22,309**	19,572	**21,371**	18,607

Clearing and settlement obligations

The Group is subject to a commitment in accordance with the rules governing clearing and settlement arrangements contained in the Australian Payments Clearing Association Limited Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Consumer Electronic Clearing System and the High Value Clearing System which could result in a credit risk exposure and loss in the event of a failure to settle by a member institution. The Group also has a commitment in accordance with the Austraclear System Regulations and the Continuous Linked Settlement Bank Rules to participate in loss-sharing arrangements in the event that another financial institution fails to settle.

The Group is a member of various central clearing houses, most notably the London Clearing House (LCH) SwapClear and RepoClear platforms and the ASX OTC CCP, which enables the Group to centrally clear derivative and repurchase agreement instruments respectively. As a member of these central clearing houses, the Group is required to make a default fund contribution. The exposure to risk associated with this commitment is reflected for capital adequacy purposes in the Group's Pillar 3 reporting. In the event of a default of another clearing member, the Group could be required to commit additional funds to the default fund contribution.

NOTE 29 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

Credit-related commitments

Binding credit-related commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements. Nevertheless, credit-related commitments are considered "at call" for liquidity management purposes.

	Group		Company	
	2018	2017	2018	2017
	$m	$m	$m	$m
Credit-related commitments				
Underwriting facilities	**2**	2	**2**	2
Binding credit commitments	**156,629**	151,375	**136,600**	134,267
Total credit-related commitments	**156,631**	151,377	**136,602**	134,269
Credit-related commitments by geographical location				
Australia	**122,831**	123,599	**122,214**	122,930
New Zealand	**19,412**	16,439	**-**	-
Other International	**14,388**	11,339	**14,388**	11,339
Total credit-related commitments	**156,631**	151,377	**136,602**	134,269

Parent entity guarantee and undertakings

The Company has provided the following guarantees and undertakings relating to entities in the Group. These guarantees and undertakings are not included in previous tables in the note:

- The Company will guarantee up to $27,709 million (2017: $25,505 million) of commercial paper issuances by National Australia Funding (Delaware) Inc. Commercial paper of $995 million (2017: $189 million) has been issued.
- The Company is responsible to its customers for any direct loss suffered as a result of National Nominees Limited failing to perform its obligations to the Company.
- The Company and National Wealth Management Services Limited (NWMSL) have been granted licences by the Safety, Rehabilitation and Compensation Commission (the Commission) to operate as self-insurers under the Commonwealth Government Comcare Scheme. Under these arrangements, the Company has agreed that, in the event it is proposed that NWMSL no longer continues as a wholly owned controlled entity of the Company, the Company will provide the Commission with a guarantee of the then current workers' compensation liabilities of NWMSL.
- The Company has issued letters of support in respect of certain subsidiaries and associates in the normal course of business. The letters recognise that the Company has a responsibility to ensure that those subsidiaries and associates continue to meet their obligations.

General

From time to time the Group is exposed to contingent risks and liabilities arising from the conduct of its business including:

- actual and potential disputes, claims and legal proceedings
- investigations into past conduct, including actual and potential regulatory breaches, carried out by regulatory authorities on either an industry-wide or NAB-specific basis
- internal investigations and reviews into past conduct, including actual and potential regulatory breaches, carried out by NAB (sometimes with the assistance of third parties)
- contracts that involve giving contingent commitments such as warranties, indemnities or guarantees.

Overall, the number and scale of regulatory investigations and reviews involving Australian financial institutions has increased significantly over the year to 30 September 2018. Some of these investigations and reviews have resulted in customer remediation programs which are expected to continue into the 2019 financial year.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has also brought greater focus to a range of culture and compliance matters, including responsible lending. The Royal Commission is currently examining past conduct of entities within the Group. A final report is due by 1 February 2019.

There are contingent liabilities in respect of all these matters. Where appropriate, provisions have been made. The aggregate potential liability of the Group in relation to these matters cannot be accurately assessed.

NOTE 29 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

Further information on some specific contingent liabilities that may impact the Group is set out below.

Legal proceedings

Bank Bill Swap Reference Rate US class action

In August 2016, a class action complaint was filed in the United States District Court for the Southern District of New York regarding alleged conduct relating to the Bank Bill Swap Reference Rate (BBSW). The complaint named a number of defendants, including NAB and various other Australian and international banks, and refers to earlier proceedings brought by ASIC in relation to BBSW. The relevant ASIC proceedings against NAB were resolved in November 2017 pursuant to a court-approved settlement. The potential outcome and total costs associated with the US class action remain uncertain.

Superannuation Complaints Tribunal (SCT) decision appeal

On 6 August 2018, NAB filed an appeal with the Federal Court against a recent decision of the SCT relating to commissions for rollover contributions. The potential outcome and total costs associated with this matter remain uncertain.

UK conduct issues – potential action

In December 2017, NAB received a letter before action from solicitors acting for RGL Management, a claims management company in the UK. The letter makes allegations against NAB and CYBG in relation to the sale of fixed rate tailored business loans to customers of CYBG during the period from 2001 to 2012. The potential outcome and total costs associated with any proceedings which may arise remain uncertain.

Regulatory activity, compliance investigations and associated proceedings

Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) program uplift and compliance issues

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

When significant AML or CTF compliance issues are identified, they are notified to the Australian Transaction Reports and Analysis Centre (AUSTRAC) or equivalent foreign regulators. Investigation and remediation activities are currently occurring in relation to a number of identified issues, including certain weaknesses with the implementation of 'Know Your Customer' requirements, as well as systems and process issues that impacted transaction monitoring and reporting in some specific areas. NAB continues to keep AUSTRAC (and where applicable, relevant foreign regulators) informed of its progress in resolving these issues, and will continue to cooperate with, and respond to queries from, such regulators.

As this work progresses, further issues may be identified and additional strengthening may be required. The potential outcome and total costs associated with the investigation and remediation process for specific issues identified to date, and for any issues identified in the future, remain uncertain.

Contingent tax risk

The tax affairs of the Group are subject to regular reviews by the Australian Taxation Office as well as the Revenue Offices of the various Australian States and Territories. Innovation Australia is currently reviewing various prior year claims made by the Group for research and development tax incentives. Risk reviews and audits are also being undertaken by tax authorities in other jurisdictions in which the Group conducts business, as part of normal tax authority review activity in those countries. NAB continues to respond to any notices and requests for information it receives from relevant tax authorities.

The reviews, notices and requests described above may result in additional tax liabilities (including interest and penalties). Where appropriate, provisions have been made. The potential outcome and total costs associated with these activities remain uncertain.

Adviser service fees

ASIC is conducting an industry-wide investigation into financial advice fees paid by customers pursuant to ongoing service arrangements with financial advice firms, including entities within the Group. Under the service arrangements, customers generally pay an adviser service fee to receive an annual review together with a range of other services. NAB is assessing whether customers who have paid these fees have been provided with the agreed services.

NAB continues to engage with ASIC on the design of the review methodology for this matter. NAB is currently assessing certain cohorts of customers with financial advisers employed by the Group. Where customer compensation is probable and able to be reliably estimated, provisions have been taken. NAB has also commenced identifying cohorts of potentially impacted customers

NOTE 29 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

associated with the Group's advice partnerships. The potential outcome and total costs associated with this investigation remain uncertain.

On 12 October 2018, ASIC announced that it would be expanding its current activities to include an industry-wide review of compliance with requirements for Fee Disclosure Statements and Renewal Notices in the financial advice sector. The expanded review is at an early stage, and the potential outcome and total costs associated with this matter remain uncertain.

Consumer Credit Insurance (CCI)

In 2017, as part of an industry-wide review, ASIC requested that NAB and other lenders undertake a review of their compliance with *ASIC Report 256 Consumer Credit Insurance: A review of sales practices by authorised deposit-taking institutions*.

In response to this request, NAB conducted an internal audit on the sale of CCI products. The audit findings identified potential issues with sales of these products across certain NAB channels.

NAB is currently in the process of designing a remediation methodology for CCI customers who are potentially impacted. The outcome and total costs associated with this work are uncertain.

On 27 September 2018, plaintiff law firm Slater & Gordon filed a class action in the Federal Court, alleging that NAB and MLC Limited engaged in unconscionable conduct in contravention of the *ASIC Act 2001* (Cth) in connection with the sale of a particular CCI product (being NAB Credit Card Cover). The class action is at an early stage, and the potential outcome and total costs associated with this matter remain uncertain.

NZ Ministry of Business, Innovation and Employment compliance audit

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

BNZ requested early participation in this program in May 2016 and received the Labour Inspectorate's final report, which set out its findings regarding BNZ's compliance with the Holidays Act, on 18 January 2017. The findings indicated that BNZ has not complied with certain requirements of the Holidays Act, including in respect of annual and public holiday payments to certain employees. BNZ continues to review its compliance with the Holidays Act and is also working with the Labour Inspectorate to reach an appropriate resolution in respect of the issues identified in its report. The final outcome and total costs associated with the audit remain uncertain.

Plan service fees (PSF)

Further to ASIC's May 2017 report about its industry-wide investigation into financial advice fees, NAB has finalised the payment of refunds to customers who did not have a plan adviser attached to their superannuation account and were incorrectly charged PSF. ASIC has also investigated the payment of PSF by customers who left an employer and were transferred to the personal division of the relevant corporate superannuation product. NAB is in the process of refunding PSF paid by these members and expects to have substantially completed these payments by 31 December 2018. Provisions have been taken in relation to these refunds, but the final outcome and total costs associated with this matter remain uncertain.

On 6 September 2018, ASIC also commenced Federal Court proceedings against two Group entities - NULIS Nominees (Australia) Limited (NULIS) and MLC Nominees Pty Ltd - in relation to PSF. ASIC is seeking declarations that a number of provisions of the *ASIC Act 2001* (Cth), *Corporations Act 2001* (Cth) and the *Superannuation Industry (Supervision) Act 1993* (Cth) have been contravened. The potential outcome and total costs associated with these proceedings remain uncertain.

Wealth advice review

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

Contractual commitments

Insurance claims

NAB is in the process of making insurance claims in relation to certain conduct-related losses suffered by the Group. The insurance claims are treated by NAB as a contingent asset. The outcome of such claims remains uncertain.

NOTE 29 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

UK conduct issues and the Conduct Indemnity Deed

As part of the arrangements relating to the CYBG demerger, NAB and CYBG entered into a Conduct Indemnity Deed (Deed) under which NAB agreed, subject to certain limitations, to provide an indemnity in respect of historic conduct liabilities (Capped Indemnity). More information on the Deed is available in the contingent liabilities note to the Annual Financial Report 2017.

As at 30 September 2018, NAB had no outstanding financial exposure to CYBG for conduct indemnity claims under the Deed (other than any potential tax liabilities, the likelihood of which is considered low). As expected, in June 2018 CYBG claimed the full £148 million of available support that remained outstanding under the Deed. The collateralised cash deposit balance with the Bank of England is nil and NAB no longer has a CET1 deduction related to the Deed.

It is not expected that payments made to CYBG under the Deed will be taxable in the hands of the CYBG Group, but if tax were to be payable then the Deed contains provisions pursuant to which NAB has agreed to compensate CYBG for any actual tax incurred that would not have been incurred but for the receipt of the relevant amounts. CYBG is also obliged to compensate NAB where it obtains a tax benefit in future years relating to payments received by CYBG under the Deed.

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

MLC Limited life insurance transaction

In connection with the sale of 80% of MLC Limited (MLCL) to Nippon Life Insurance Company (Nippon Life) in October 2016, NAB gave certain covenants, warranties and indemnities in favour of Nippon Life. The parties also entered into long-term agreements for the distribution of life insurance products and continued use of the MLC brand. In addition, NAB agreed to take certain actions to establish MLCL as a standalone entity, including by providing transitional services as well as support for data migration activities and the development of technology systems (Transition Work).

NAB is currently in discussions with MLCL and Nippon Life to resolve a number of disputes arising from the above arrangements. The outcome of these discussions and any associated costs (including total costs to complete outstanding Transition Work), remain uncertain.

NOTE 30
OPERATING LEASES

The Group leases various offices, stores and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. There are no contingent rents payable. The Group also leases data processing and other equipment under non-cancellable lease arrangements.

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

	Group		Company	
	2018	2017	2018	2017
	$m	$m	$m	$m
Due within one year	**389**	393	**334**	336
Due after one year but no later than five years	**1,162**	976	**1,033**	849
Due after five years	**1,447**	558	**1,420**	524
Total non-cancellable operating lease commitments	**2,998**	1,927	**2,787**	1,709

OTHER DISCLOSURES

NOTE 31

INTEREST IN SUBSIDIARIES AND OTHER ENTITIES

Accounting policy

Investment in controlled entities

Controlled entities are all those entities (including structured entities) over which the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An assessment of control is performed on an ongoing basis. Entities are consolidated from the date on which control is transferred to the Group. Entities are deconsolidated from the date that control ceases. The effects of transactions between entities within the Group are eliminated in full upon consolidation. External interest in the equity and results of the entities that are controlled by the Group are shown as non-controlling interests in controlled entities in the equity section of the consolidated balance sheet.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over these policies. The Group's investments in associates are accounted for using the equity method.

Structured entities

A Structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities generally have restricted activities and a narrow and well defined objective which is created through contractual arrangement. Depending on the Group's power over the relevant activities of the structured entities and its exposure to and ability to influence its own return, it may or may not consolidate the entity.

Unconsolidated structured entities refer to all structured entities that are not controlled by the Group. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions or for specific investment opportunities.

Interests in unconsolidated structured entities include, but are not limited to, debt and equity investments, guarantees, liquidity arrangements, commitments, fees from investment structures, and derivative instruments that expose the Group to the risks of the unconsolidated structured entities. Interests do not include plain vanilla derivatives (e.g. interest rate swaps and cross currency swaps) and positions where the Group:
- creates rather than absorbs variability of the unconsolidated structured entity
- provides administrative, trustee or other services as agent to third party managed structured entities.

Involvement is considered on a case by case basis, taking into account the nature of the structured entity’s activity. This excludes involvements that exist only because of typical customer-supplier relationships.

(a) Investment in controlled entities

The following table presents the material controlled entities as at 30 September 2018 and 30 September 2017. Investment vehicles holding life policyholder assets are excluded from the list below.

Entity name	Ownership %	Incorporated / formed in
National Australia Bank Limited		Australia
National Equities Limited	100	Australia
National Australia Group (NZ) Limited	100	New Zealand
Bank of New Zealand	100	New Zealand
BNZ International Funding Limited	100	New Zealand
National Wealth Management Holdings Limited	100	Australia
MLC Investments Ltd	100	Australia
NULIS Nominees (Australia) Limited	100	Australia
NBA Properties Limited	100	Australia

NOTE 31 INTEREST IN SUBSIDIARIES AND OTHER ENTITIES (CONTINUED)

Significant restrictions

Subsidiary companies that are subject to prudential regulation are required to maintain minimum capital and other regulatory requirements that may restrict the ability of these entities to make distributions of cash or other assets to the parent company. These restrictions are managed in accordance with the Group's normal risk management policies set out in *Note 19 Financial risk management* and capital adequacy requirements in *Note 35 Capital adequacy*.

(b) Investment in associates

The Group's investments in associates include a 20% interest in MLC Limited, a provider of life insurance products in Australia. Set out below is the summarised financial information of MLC Limited based on its financial information (and not the Group's 20% share of those amounts) and a reconciliation of that information to the equity-accounted carrying amount as at 30 September:

	Group	
	2018 $m	2017 $m
Summarised income statement of MLC Limited		
Revenue	**1,858**	1,685
Net profit for the period	**89**	77
Total comprehensive income for the period	**89**	77
Reconciliation to the Group's share of profit		
Prima facie share of profit at 20%	**18**	15
Deduct amortisation of intangible assets recognised at acquisition, net of tax	**(8)**	(7)
Group's share of profit for the period	**10**	8
Summarised balance sheet of MLC Limited		
Total assets	**5,872**	5,834
Total liabilities	**3,836**	3,829
Net assets	**2,036**	2,005
Reconciliation to the Group's investment in MLC Limited		
Prima facie share of net assets at 20%	**407**	401
Add intangible assets recognised at acquisition, net of deferred tax	**137**	148
Group's carrying amount of the investment in MLC Limited	**544**	549

The Group received dividends from MLC Limited during the 2018 financial year of $11 million (2017: $9.1 million).

Significant restrictions

Assets in a statutory fund of MLC Limited can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of that fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act 1995* (Cth) are met. This may impact MLC Limited's ability to transfer funds to the Group in the form of dividends. In addition, in certain circumstances the payment of dividends may require approval by APRA.

Transactions

As part of a long-term partnership with Nippon Life, the Group distributes MLC Limited life insurance products to retail and group customers through the Group's owned and aligned distribution network under a long-term distribution agreement.

Under a financial services agreement and certain linked arrangements, the Group provides MLC Limited with certain financial services, including:
- On an exclusive basis: custody, transactional banking facilities, unit pricing, fixed income, commodity and currency services.
- On a non-exclusive basis: investment portfolio management.

Under a transitional services agreement, the Group provides certain support services until such time as MLC Limited establishes its own standalone environment and capability. These services include financial and investment reporting, infrastructure services, major systems and contact centres.

All services are provided on an arm's length basis.

NOTE 31 INTEREST IN SUBSIDIARIES AND OTHER ENTITIES (CONTINUED)

(c) Consolidated structured entities

The Group has interests in the following types of consolidated structured entities:

Type	Details
Securitisation	The Group engages in securitisation activities for funding, liquidity and capital management purposes. The Group principally packages and sells residential mortgage loans as securities to investors through a series of securitisation vehicles. The Group is entitled to any residual income after all payments to investors and costs related to the program have been met. The note holders only have recourse to the pool of assets. The Group is considered to hold the majority of the residual risks and benefits of the vehicles. All relevant financial assets continue to be held on the Group balance sheet, and a liability is recognised for the proceeds of the funding transaction. The Group provides liquidity facilities to the securitisation vehicles. The facilities can only be drawn to manage the timing mismatch of cash inflows from securitised loans and cash outflows due to investors. The liquidity facility limit as at 30 September 2018 is $797 million. ASIC has granted relief to Titan NZ (MRP Bonds) Trust, a consolidated structured entity, under ASIC Instrument No 18-0620 from the requirement to synchronise its reporting period with that of the Company. The effect of this relief is immaterial to the financial statements.
Covered bonds	The Group issues covered bonds for funding purposes. Housing loans are assigned to a bankruptcy remote structured entity to provide security for the obligations payable on the covered bonds issued by the Group. Similar to securitisation programs, the Group is entitled to any residual income after all payments due to covered bonds investors and costs related to the program have been met. The covered bond holders have dual recourse to the Group and the covered pool assets.

(d) Unconsolidated structured entities

The Group has interests in the following types of unconsolidated structured entities:

Type	Details
Securitisation	The Group engages with third party (client) securitisation vehicles by providing warehouse facilities, liquidity support and derivatives. The Group invests in residential mortgage and asset-backed securities.
Other financing	The Group provides tailored lending to limited recourse single purpose vehicles which are established to facilitate asset financing for clients. The assets are pledged as collateral to the Group. The Group engages in raising finance for leasing assets such as aircraft, trains, shipping vessels and other infrastructure assets. The Group may act as a lender, arranger or derivative counterparty to these vehicles. Other financing transactions are generally senior, secured self-liquidating facilities in compliance with Group credit lending policies. Regular credit and financial reviews of the borrowers are conducted to ensure collateral is sufficient to support the Group's maximum exposures.
Investment funds	The Group has direct interests in unconsolidated investment funds. The Group's interests include holding units and receiving fees for services. The Group's interest in unconsolidated investment funds is immaterial.

The table below shows the carrying value and maximum exposure to loss of the Group's interests in unconsolidated structured entities.

	Group					
	Securitisations		Other financing		Total	
	2018 $m	2017 $m	2018 $m	2017 $m	2018 $m	2017 $m
Trading instruments	**-**	37	**-**	-	**-**	37
Other financial assets	**-**	46	**-**	-	**-**	46
Loans and advances	**8,105**	7,234	**5,773**	4,407	**13,878**	11,641
Debt instruments	**9,771**	10,332	**-**	-	**9,771**	10,332
Total carrying value of assets in unconsolidated structured entities	**17,876**	17,649	**5,773**	4,407	**23,649**	22,056
Commitment / contingencies	**5,584**	4,254	**2,174**	1,030	**7,758**	5,284
Total maximum exposure to loss in unconsolidated structured entities	**23,460**	21,903	**7,947**	5,437	**31,407**	27,340

NOTE 31 INTEREST IN SUBSIDIARIES AND OTHER ENTITIES (CONTINUED)

The total assets of unconsolidated structured entities are not considered meaningful for the purpose of understanding the Group's financial risks associated with these entities and so have not been presented. Unless specified otherwise, the Group's maximum exposure to loss is the total of its on-balance sheet positions and its off-balance sheet arrangements, being loan commitments, financial guarantees, and liquidity support. Exposure to loss is managed as part of the enterprise Group-wide risk management framework. Refer to *Note 19 Financial risk management* for further details. Income earned from interests in unconsolidated structured entities primarily result from interest income, mark-to-market movements and fees and commissions.

The majority of the Group's exposures are senior investment grade, but in some limited cases, the Group may be required to absorb losses from unconsolidated structured entities before other parties because the Group's interests are subordinated to others in the ownership structure. The table below shows the credit quality of the Group's exposures in unconsolidated structured entities:

	Group					
	Securitisations		Other financing		Total	
	2018	2017	2018	2017	2018	2017
	$m	$m	$m	$m	$m	$m
Senior investment grade	**17,819**	17,495	**1,427**	1,021	**19,246**	18,516
Investment grade	**30**	133	**4,031**	2,978	**4,061**	3,111
Sub-investment grade	**27**	21	**315**	408	**342**	429
Total [1]	**17,876**	17,649	**5,773**	4,407	**23,649**	22,056

(1) *Of the total, $23,644 million (2017: $22,013 million) represents the Group's interest in senior notes and $5 million in subordinated notes (2017: $43 million).*

NOTE 32
RELATED PARTY DISCLOSURES

The Group provides a range of services to related parties including the provision of banking facilities and standby financing arrangements. Other dealings include granting loans and accepting deposits, and the provision of finance. These transactions are normally entered into on terms equivalent to those that prevail on an arm's length basis in the ordinary course of business.

Other transactions with controlled entities may involve leases of properties, plant and equipment, provision of data processing services or access to intellectual or other intangible property rights. Charges for these transactions are normally on an arm's length basis and are otherwise on the basis of equitable rates agreed between the parties. The Company also provides various administrative services to the Group, which may include accounting, secretarial and legal. Fees may be charged for these services.

Loans made to subsidiaries are generally entered into on terms equivalent to those that prevail on an arm's length basis, except that there are often no fixed repayment terms for the settlement of loans between parties. Outstanding balances are unsecured and are repayable in cash.

Subsidiaries

The table below shows the aggregate amounts receivable / (payable) from subsidiaries for the years ended 30 September:

	Company	
	2018 $m	2017 $m
Balance at beginning of year	**1,562**	2,015
Net cash inflows from controlled entities	**(3,898)**	(311)
Net foreign currency translation movements and other amounts receivable	**(69)**	(142)
Balance at end of year	**(2,405)**	1,562

The table below shows material transactions with subsidiaries for the years ended 30 September:

	Company	
	2018 $m	2017 $m
Net interest / (expense)	**(473)**	(779)
Dividend revenue	**2,675**	2,005

Superannuation plans

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

	Group		Company	
Payment to:	2018 $m	2017 $m	2018 $m	2017 $m
National Australia Bank Group Superannuation Fund A	**238**	234	**238**	234
National Wealth Management Superannuation Plan	**1**	2	**-**	-
Bank of New Zealand Officers Provident Association (Division 2)	**11**	11	**-**	-
National Australia Bank Pension and Workplace Savings Scheme	**7**	6	**7**	6

Transactions between the Group and superannuation plans sponsored by the Group were made on commercial terms and conditions.

NOTE 32 RELATED PARTY DISCLOSURES (CONTINUED)

Key Management Personnel (KMP)

KMP are the directors and senior executives of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group. Details of KMP are set out in the *Remuneration report* of the *Report of the Directors*.

Remuneration

Total remuneration of KMP is included within total personnel expenses in *Note 5 Operating expenses*. The total remuneration is as follows:

	Group	
	2018	2017
	$	$
Short-term benefits		
Cash salary	**16,791,685**	15,131,897
Variable reward cash	**5,371,267**	5,886,665
Non-monetary [(1)]	**1,077,477**	854,485
Post-employment benefits		
Superannuation	**461,833**	566,112
Other long-term benefits		
Other long-term benefits	**161,780**	158,015
Equity-based benefits		
Shares	**2,048,309**	2,166,797
Performance rights	**8,010,300**	10,664,807
Other		
Other remuneration	**787,341**	2,796,294
Total	**34,709,992**	38,225,072

[(1)] *The 2017 comparative amount has been adjusted to include prior year benefits.*

Performance rights and shareholdings of KMP are set out in the *Remuneration report* included in the *Report of the Directors*.

Loans to KMP and their related parties

During the reporting period, loans made to KMP and other related parties of the Group and Company were $10 million (2017: $14 million). Such loans are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans may be secured or unsecured depending on the nature of the lending product advanced. As at 30 September 2018, the total loan balances outstanding were $20 million (2017: $61 million).

No amounts were written off in respect of any loans made to directors or other KMP of the Group and Company during the current or prior reporting period.

Further details regarding loans advanced to KMP of the Group and Company are included in the *Remuneration report* of the *Report of the Directors*.

NOTE 33
REMUNERATION OF EXTERNAL AUDITOR

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Ernst & Young Australia				
Audit services	**10,382**	10,437	**7,303**	7,284
Audit-related services	**5,388**	5,495	**3,249**	3,661
Non-audit services	**354**	1,843	**347**	1,771
Total Australia	**16,124**	17,775	**10,899**	12,716
Overseas related practices of Ernst & Young Australia				
Audit services	**3,911**	4,020	**1,840**	1,986
Audit-related services	**534**	674	**232**	294
Non-audit services	**782**	235	**580**	-
Total Overseas	**5,227**	4,929	**2,652**	2,280
Total compensation of auditors	**21,351**	22,704	**13,551**	14,996

For a description of the Board Audit Committee's pre-approval policies and procedures, refer to the NAB 2018 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance. Further details of the audit-related and non-audit services provided by Ernst & Young to the Group during 2018 and the fees paid or due and payable for those services are set out in the *Report of the Directors*.

NOTE 34
EQUITY-BASED PLANS

Accounting policy

The value of shares and performance rights provided to employees are measured by reference to their grant date fair value. The grant date fair value of each share is determined by the market value of NAB shares, and is generally a five day weighted average share price. The fair value of the shares and performance rights with market performance hurdles is determined using a simulated version of the Black-Scholes model.

With the exception of General employee shares in Australia and Asia, the expense for each tranche of shares or performance rights granted is recognised in the income statement on a straight-line basis, adjusted for forfeitures, over the period that the shares provided are received (the vesting period). The expense for General employee shares in Australia and Asia is recognised in the income statement in the year the shares are granted as they are not subject to forfeiture. A corresponding increase is recorded in the equity-based compensation reserve.

Key judgements and estimates

The key assumptions and inputs used in the Black-Scholes model vary depending on the award and type of security granted. They include the NAB share price at the time of the grant, exercise price of the performance rights (which is nil), the expected volatility of NAB's share price, the risk-free interest rate and the expected dividend yield on NAB shares for the life of the performance rights. When estimating expected volatility, historic daily share prices are analysed to arrive at annual and cumulative historic volatility estimates (which may be adjusted for any abnormal periods or non-recurring significant events). Trends in the data are analysed to estimate volatility movements in the future for use in the numeric pricing model. The simulated model takes into account both the probability of achieving market performance conditions and the potential for early exercise of vested performance rights.

While market performance conditions are incorporated into the grant date fair values, non-market conditions are not taken into account when determining the fair value and expected time to vesting of shares and performance rights. Instead, non-market conditions are taken into account by adjusting the number of shares and performance rights included in the measurement of the expense so that the amount recognised in the income statement reflects the number of shares or performance rights that actually vest.

NOTE 34 EQUITY-BASED PLANS (CONTINUED)

Under the Group's employee equity plans, employees of the Group are awarded NAB shares and performance rights. An employee's right to participate in a plan is often dependent on their performance or the performance of the Group, and NAB shares and performance rights awarded under the plans are often subject to service and / or performance conditions.

The Board determines the maximum total value of shares or performance rights offered under each plan having regard to the rules of the relevant plan and, where required, the method used in calculating the fair value per security. Under ASX Listing Rules, shares and performance rights may not be issued to NAB directors under an employee equity plan without specific shareholder approval.

Under the terms of most offers, there is a period during which shares are held on trust for the employee they are allocated to and cannot be dealt with, or performance rights cannot be exercised, by that employee. There may be forfeiture or lapse conditions which apply to shares or performance rights allocated to an employee (as described below), including as a result of the employee ceasing employment with the Group during those periods or conduct standards not being met. Shares allocated to employees are eligible for any cash dividends paid by NAB on those shares from the time those shares are allocated to the trustee on their behalf. Performance rights granted to employees are not eligible for any cash dividends paid by NAB, although employees will receive cash dividends on any shares they receive once the performance rights are exercised.

The key equity-based programs offered to employees are:

	Equity-based programs					
	Variable reward	**Short-term incentives (STI)**	**Long-term incentives (LTI)**	**Commencement awards**	**Recognition / Retention awards**	**General employee shares**
Description	As outlined in the *Remuneration Report* of the *Report of the Directors*, in 2018 NAB introduced a much simpler executive remuneration framework for the CEO and Executive Leadership Team. 40% of an executive's variable reward is provided in cash and 60% in shares which are deferred.	A proportion of an employee's STI reward (which from 2019 onwards will be referred to as their variable reward) is provided in shares and is deferred for a specified period. The deferred amount and deferral period is commensurate with the level of risk and responsibility within a role.	Prior to 2018, LTI was awarded to help align management decisions with the long-term performance of the Group through the use of performance hurdles.	Provided to enable the buy-out of equity or other incentives from an employee's previous employment.	Offered to key individuals in roles where retention is critical over the medium term (generally between 2 and 3 years).	Shares up to a target value of $1,000 are offered to eligible employees.
Eligibility	Group CEO, other members of the Executive Leadership Team and the Executive General Manager, Internal Audit.	Certain permanent employees based in Australia, Asia, NZ, the UK and the United States having regard to their individual performance and the performance of the Group.	When offered, the Group CEO and senior executives were eligible to participate.	Provided on a case by case basis, with the recommendation of the Remuneration Committee or delegate and the approval of the Board or delegate.	Provided on a case by case basis, with the recommendation of the Remuneration Committee or delegate and the approval of the Board or delegate.	Generally all permanent employees.

NOTE 34 EQUITY-BASED PLANS (CONTINUED)

	Equity-based programs					
	Variable reward	**Short-term incentives (STI)**	**Long-term incentives (LTI)**	**Commencement awards**	**Recognition / Retention awards**	**General employee shares**
Type of share-based payment	Shares.	Generally shares or performance rights (which are granted for jurisdictional reasons).	Performance rights.	Generally shares or performance rights (which are granted for jurisdictional reasons).	Generally shares or performance rights (which are granted for jurisdictional reasons).	Shares.
Service conditions and performance hurdles	Entitlement to deferred shares may be forfeited upon resignation, dismissal for cause, failure to meet threshold conduct requirements, or if the Board otherwise determines. The Board can extend the deferral period beyond four years. The Board can clawback the deferred shares in certain circumstances.	Deferred shares or performance rights are forfeited or lapsed during the vesting period if the employee resigns or breaches the NAB Code of Conduct or, subject to certain exclusions, if the employee's employment with the Group is terminated.	During the vesting period, all of an executive's performance rights will lapse on the executive's resignation from the Group and a pro rata portion will lapse on cessation of employment in other circumstances. Performance rights will also lapse if conduct requirements or performance hurdles are not met. The Board has absolute discretion to determine vesting or lapsing outcomes for the performance rights.	Shares or performance rights are subject to restrictions and certain forfeiture or lapsing conditions, including forfeiture or lapsing on resignation from the Group or if conduct standards are not met.	Shares or performance rights are subject to restrictions and certain forfeiture or lapsing conditions, including forfeiture or lapsing on resignation from the Group or if conduct standards are not met.	Shares are subject to restrictions on dealing for three years and, in Australia and Asia, are not subject to forfeiture. In NZ, the UK and the United States, the shares are effectively forfeited if the employee resigns or is dismissed from the Group before the end of the 3 year restriction period.
Vesting or deferral period (period over which expenses are recognised)	4 years. The Board has the power to extend the deferral period beyond 4 years if it considers that circumstances warrant.	Defined period to align with the level of risk and impact of the role on business performance and results or to meet regulatory requirements. The vesting period will generally be between 1 and 4 years.	Defined period set out at time of grant, generally between a 4 and 5 year performance period.	Defined period set out at time of grant, based on satisfactory evidence of forgone awards from previous employment.	Defined period set out at time of grant.	3 years.
Exercise period (Only applicable for performance rights)	n/a.	If applicable conditions are met, performance rights will vest and each performance right will be automatically exercised.	Performance rights granted from 2012 to 2014 generally have an expiry date between 5 and 6 years from the effective date, if they remain unexercised. Performance rights granted from 2015 will be automatically exercised if they vest.	If the applicable conditions are met, performance rights will vest and each performance right will be automatically exercised.	If the applicable conditions are met, performance rights will vest and each performance right will be automatically exercised.	n/a.

NOTE 34 EQUITY-BASED PLANS (CONTINUED)

Employee Share Plan

	2018		2017	
Employee share plans	**Fully paid ordinary shares granted during the year No.**	**Weighted average grant date fair value $**	**Fully paid ordinary shares granted during the year No.**	**Weighted average grant date fair value $**
Variable reward deferred shares	**3,637,091**	**30.32**	4,861,247	26.29
Commencement and recognition shares	**546,675**	**29.70**	553,179	31.18
General employee shares	**929,880**	**29.54**	1,092,862	29.17

The closing market price of NAB's shares at 30 September 2018 was $27.81 (2017: $31.50). The volume weighted average share price during the year ended 30 September 2018 was $28.87 (2017: $30.24).

Performance rights movements

Number of performance rights	2018	2017
Opening balance as at 1 October	**4,887,668**	4,923,481
Granted	**1,999,924**	831,510
Forfeited	**(967,161)**	(606,334)
Exercised	**(1,166,717)**	(259,315)
Expired	**-**	(1,674)
Closing balance as at 30 September	**4,753,714**	4,887,668
Exercisable as at 30 September	**10,849**	-

Performance rights outstanding

	2018		2017	
Terms and conditions	**Outstanding at 30 Sep No.**	**Weighted average remaining life months**	**Outstanding at 30 Sep No.**	**Weighted average remaining life months**
Market hurdle	**3,185,150**	**21**	4,464,645	24
Non-market hurdle	**1,185,908**	**32**	53,769	12
Individual hurdle	**382,656**	**17**	369,254	9

Information on fair value calculation

The table below shows the significant assumptions used as inputs into the grant date fair value calculation of performance rights granted during the last two years. In the following table, values have been presented as weighted averages, but the specific values for each grant are used for the fair value calculation. The following table shows a 'no hurdle' value where the grant includes performance rights which have non-market based performance hurdles attached.

	2018	2017
Weighted average values		
Contractual life (years)	**3.3**	3.3
Risk-free interest rate (per annum)	**2.12%**	1.89%
Expected volatility of share price	**21%**	20%
Closing share price on grant date	**$29.55**	$31.16
Dividend yield (per annum)	**6.40%**	7.40%
Fair value of performance rights	**$9.68**	$15.06
'No hurdle' value of performance rights	**$24.89**	$24.05
Expected time to vesting (years)	**3.09**	3.03

NOTE 35
CAPITAL ADEQUACY

As an ADI, the Company is subject to regulation by the APRA under the authority of the *Banking Act 1959* (Cth). APRA has set minimum Prudential Capital Requirements (PCR) for ADIs consistent with the Basel Committee on Banking Supervision (BCBS) capital adequacy framework. PCR are expressed as a percentage of total risk-weighted assets. APRA requirements are summarised below:

Common Equity Tier 1	**Tier 1 capital**	**Total capital**
4.5% minimum	**6.0% minimum**	**8.0% minimum**
CET1 capital consists of the sum of paid-up ordinary share capital, retained profits plus certain other items recognised as the highest quality components of capital.	CET1 capital plus certain securities with complying loss absorbing characteristics known as Additional Tier 1 capital.	Tier 1 capital plus subordinated debt instruments with complying loss absorbing characteristics known as Tier 2 capital.

An ADI must hold a capital conservation buffer above the PCR for CET1 capital. The capital conservation buffer is 2.5% of the ADI's total risk-weighted assets. As a Domestic Systemically Important Bank (D-SIB) in Australia, the Group is also required to hold an additional buffer of 1% in CET1 capital.

APRA may determine higher PCR for an ADI and may change an ADI's PCR at any time. A breach of the required ratios under APRA's Prudential Standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital.

Capital ratios are monitored against internal capital targets that are set by the Board over and above minimum capital requirements set by APRA.

The Group remained well capitalised during the year to September 2018, and expects to achieve APRA's 'unquestionably strong' capital benchmark of 10.5% in an orderly manner by 1 January 2020. The Group's CET1 ratio as at 30 September 2018 was 10.2%.

NOTE 36
NOTES TO THE CASH FLOW STATEMENTS

Reconciliation of net profit attributable to owners of NAB to net cash provided by operating activities

	Group		Company	
	2018	2017	2018	2017
	$m	$m	$m	$m
Net profit attributable to owners of NAB	**5,554**	5,285	**5,219**	4,975
Add / (deduct) non-cash items in the income statement:				
(Increase) / decrease in interest receivable	**(193)**	(107)	**(197)**	(117)
Increase / (decrease) in interest payable	**260**	(94)	**225**	8
Decrease in unearned income and deferred net fee income	**12**	(139)	**13**	(240)
Fair value movements on assets, liabilities and derivatives held at fair value	**8,084**	(3,777)	**7,988**	(3,670)
Decrease in personnel provisions	**218**	(89)	**224**	(76)
Increase / (decrease) in other operating provisions	**592**	632	**501**	653
Equity-based compensation recognised in equity or reserves	**146**	187	**146**	187
Impairment losses on non-financial assets	**174**	20	**30**	129
Credit impairment charge	**791**	824	**707**	731
Depreciation and amortisation expense	**780**	734	**530**	476
Decrease in other assets	**424**	307	**411**	250
Increase / (decrease) in other liabilities	**(180)**	40	**(219)**	(14)
Increase / (decrease) in income tax payable	**70**	18	**(220)**	(8)
(Increase) / decrease in deferred tax assets	**(279)**	(67)	**(229)**	(30)
(Increase) / decrease in deferred tax liabilities	**8**	(25)	**10**	(43)
Operating cash flow items not included in profit	**(25,395)**	9,503	**(25,690)**	11,350
Investing or financing cash flows included in profit				
(Gain) / loss on sale of controlled entities, before income tax	**(261)**	(44)	**(274)**	-
(Gain) / Loss on sale of property, plant, equipment and other assets	**(1)**	9	**-**	1
Net cash provided by operating activities	**(9,196)**	13,217	**(10,825)**	14,562

NOTE 36 NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

Reconciliation of liabilities arising from financing activities

	Group			Company		
	Bonds, notes and subordinated debt	Bonds, notes and subordinated debt	Other debt issues	Bonds, notes and subordinated debt	Bonds, notes and subordinated debt	Other debt issues
	At fair value	At amortised cost	At amortised cost	At fair value	At amortised cost	At amortised cost
	$m	$m		$m	$m	
Balance at 1 October 2016	19,697	127,942	6,248	3,751	123,226	6,248
Cash flows						
Proceeds from issue	6,531	30,787	-	1,651	30,787	-
Repayments	(2,486)	(29,940)	(73)	(878)	(28,990)	(73)
Non-cash changes						
Fair value changes, including fair value hedge adjustments	(406)	(2,007)	-	(148)	(1,831)	-
Foreign currency translation and other adjustments	(467)	(1,911)	12	(56)	(1,877)	12
Balance at 30 September 2017	22,869	124,871	6,187	4,320	121,315	6,187
Cash flows						
Proceeds from issue	**4,214**	**27,925**	**-**	**990**	**25,923**	**-**
Repayments	**(4,637)**	**(18,314)**	**(41)**	**(134)**	**(16,875)**	**(41)**
Non-cash changes						
Fair value changes, including fair value hedge adjustments	**(266)**	**(1,185)**	**-**	**(57)**	**(1,193)**	**-**
Foreign currency translation and other adjustments	**1,400**	**6,925**	**12**	**366**	**6,940**	**12**
Balance at 30 September 2018	**23,580**	**140,222**	**6,158**	**5,485**	**136,110**	**6,158**

Reconciliation of cash and cash equivalents

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

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

	Group		Company	
	2018	2017	2018	2017
Cash and cash equivalents	$m	$m	$m	$m
Assets				
Cash and liquid assets (excluding money at short call)	**50,188**	43,826	**49,717**	42,152
Treasury and other eligible bills	**672**	762	**-**	-
Due from other banks (excluding mandatory deposits with supervisory central banks)	**24,372**	31,703	**22,116**	29,688
Total cash and cash equivalent assets	**75,232**	76,291	**71,833**	71,840
Liabilities				-
Due to other banks	**(37,286)**	(36,491)	**(35,465)**	(35,009)
Total cash and cash equivalents	**37,946**	39,800	**36,368**	36,831

As at 30 September 2018, the collateralised cash deposit balance with the Bank of England is $nil as CYBG fully claimed the support that remained outstanding under the Capped Indemnity in June 2018. Included within Due from other banks at September 2017 was the cash deposit of $877 million (£513 million) held with The Bank of England in connection with the CYBG demerger, that was required to collateralise NAB's obligations under the Capped Indemnity as agreed with the United Kingdom Prudential Regulation Authority (PRA). Further information is provided in *Note 29 Contingent liabilities and credit commitments.*

NOTE 36 NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

Non-cash financing and investing activities

	Group		Company	
	2018 $m	2017 $m	2018 $m	2017 $m
New share issues				
Dividend reinvestment plan	**1,182**	569	**1,182**	569
New debt issues				
Subordinated medium-term notes reinvestment offer	**-**	539	**-**	539

Disposal of businesses

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

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

NOTE 37
DISCONTINUED OPERATIONS

Accounting policy

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, and is part of a single coordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately in the income statements and statements of comprehensive income.

In the 2016 financial year, the Group executed two major divestments, the sale of 80% of the Group's life insurance business to Nippon Life and the demerger and IPO of CYBG Group. Each of these transactions qualified as a discontinued operation.

Analysis of loss for the year from discontinued operations

The results set out below represent the discontinued operations of the Group's life insurance business and the UK Banking operations related to the CYBG demerger. During the September 2018 full year, a net loss of $411 million before tax ($388 million after tax) was recognised in discontinued operations. This includes customer-related remediation relating to the insurance business and additional costs associated with the insurance business sale, plus the final payment relating to the Conduct Indemnity Deed entered into with CYBG. Refer to *Note 29 Contingent liabilities and credit commitments* for further information.

Analysis of loss for the year from discontinued operations

Total discontinued operations	2018 $m	2017 $m
Net loss from life insurance business discontinued operation	**(97)**	-
Net loss from CYBG discontinued operation	**(291)**	(893)
Net loss from discontinued operations	**(388)**	(893)

NOTE 38
EVENTS SUBSEQUENT TO REPORTING DATE

On 18 October 2018, with the prior consent of APRA, NAB announced it would exercise its option to redeem the £400 million Trust Preferred Securities on 17 December 2018. Each Trust Preferred Security will be redeemed for cash at its par value of £1,000, plus accrued distribution.

Other than the matter noted, there are no items, transactions or events of a material or unusual nature that have arisen in the interval between 30 September 2018 and the date of this report that, in the opinion of the directors, have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

The directors of National Australia Bank Limited declare that:

(a) in the opinion of the directors, the financial statements and the notes thereto as set out on pages 70 to 157 and the additional disclosures included in the audited pages of the *Remuneration report*, comply with Australian Accounting Standards (including the Australian Accounting Interpretations), International Financial Reporting Standards as stated in *Note 1 Bases of presentation and measurement* to the financial statements, and the *Corporations Act 2001* (Cth);

(b) in the opinion of the directors, the financial statements and notes thereto give a true and fair view of the financial position of NAB and the Group as at 30 September 2018, and of the performance of NAB and the Group for the year ended 30 September 2018;

(c) in the opinion of the directors, 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

(d) the directors have been given the declarations required by section 295A of the *Corporations Act 2001* (Cth).

Dated this 16th day of November 2018 and signed in accordance with a resolution of the directors.

Dr Kenneth R Henry
Chairman

Mr Andrew G Thorburn
Group Chief Executive Officer

Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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

Report on the Audit of the Financial Report

Opinion

We have audited the Financial Report of National Australia Bank Limited (the Company) and its subsidiaries (collectively the Group), which comprises:

- the balance sheets as at 30 September 2018;
- the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies, and
- the Directors' declaration.

In our opinion the accompanying Financial Report is in accordance with the *Corporations Act* 2001, including:

- giving a true and fair view of the Company's and the Group's financial position as at 30 September 2018 and of their financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations* 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current year. These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. The key audit matters identified below related to both the Company and the Group.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Report.

Why significant	How our audit addressed the key audit matter
Provision for credit impairment on loans at amortised cost	

As described in Notes 17 *Provision for credit impairment on loans at amortised cost* and 19 *Financial risk management*, the provision for credit impairment are determined in accordance with Australian Accounting Standard AASB 9 *Financial Instruments* (AASB 9).
 	
This was considered a key audit matter as significant judgement was involved to determine the provision for credit impairment (including timing and quantum of the provision).
 	
Key areas of judgement included:
▶ the interpretation of the requirements to determine impairment under application of AASB 9, which is reflected in the Group's expected credit loss model;
▶ the identification of exposures with a significant deterioration in credit quality;
▶ assumptions used in the expected credit loss model (for exposures assessed on an individual or collective basis) such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices) as disclosed in Note 19 *Financial risk management - Credit Risk*; and
▶ the incorporation of forward-looking information to reflect current or future external factors that are not appropriately captured by the expected credit loss model.
	Our audit procedures included the following:
	
	We assessed the:
	▶ Group's expected credit loss model, in particular focusing on the following areas:
	  ▶ alignment of the expected credit loss model and its underlying methodology with the requirements of AASB 9; and
	  ▶ approach to the incorporation of forward looking macroeconomic factors; and
	▶ effectiveness of relevant controls relating to the:
	  ▶ data used to determine the provision for credit impairment, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data in data warehouses and interfaces to the expected credit loss model; and
	  ▶ expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.
	
	We examined a sample of exposures assessed on an individual basis and performed procedures to evaluate the:
	▶ timely identification of exposures with a significant deterioration in credit quality; and
	▶ expected loss calculation for exposures assessed on an individual basis.
	
	We assessed the significant modelling assumptions for exposures assessed on a collective basis as well as overlays with a focus on the:
	▶ basis for and data used to determine overlays; and
	▶ sensitivity of the collective provisions to changes in modelling assumptions.
	
	In addition, we considered the:
	▶ processes used to identify, assess and manage climate-related risks associated with the Group's loan portfolio; and
	▶ adequacy of the disclosures in the Financial Report.
	
	We involved our Actuarial and IT specialists in the performance of these procedures where their specific expertise was required.

EY
Building a better working world

Why significant	How our audit addressed the key audit matter
Conduct risk and provisions	
As detailed in Notes 24 *Provisions* and 29 *Contingent liabilities and credit commitments*, the Group is exposed to conduct-related matters in various jurisdictions (primarily in Australia) including those potentially arising from legal proceedings, regulatory reviews and/or the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. In this context, the Group recorded a provision for conduct-related costs, including remediation costs. This was considered a key audit matter as significant judgement was involved to assess conduct-related matters and measure the provision for conduct costs. Key areas of judgement included the: ▶ identification of emerging conduct-related matters given the risk that such matters are not identified by the Group and the associated costs recognised, on a timely basis; ▶ decision to recognise a provision for conduct costs; and ▶ measurement of provisions for specific costs associated with conduct-related matters based on available information.	Our audit procedures included the following: ▶ considered the Group's process for identifying conduct related matters that are financially significant to the results of the Group; ▶ read the minutes of the Group's key governance meetings and correspondence with relevant regulators and discussed various matters with the Directors and management; ▶ assessed and tested key modelling assumptions used to determine the provision for conduct costs such as expected 'in-scope' customer populations and redress payments; and ▶ for those matters the Group determined that a sufficiently reliable estimate of the amount of the obligation cannot be made and for which no provisions have been recognised, we assessed the appropriateness of this assessment. In addition, we assessed the adequacy of the disclosures in the Financial Report related to conduct risk and provisions.
Restructuring provision	
On 2 November 2017, the Group announced an acceleration of its strategic agenda and recognised a provision for redundancy, outplacement and project management costs (restructuring provision). As at 30 September 2018 the residual restructuring provision amounted to $284 million. This was considered a key audit matter as significant judgement was involved with regards to the recognition, measurement and disclosure of the restructuring provision. Key areas of judgement included: ▶ whether the Group's plans satisfied the criteria contained in Australian Accounting Standards that permit a restructuring provision to be recorded at year end; and ▶ the assumptions used to measure the restructuring provision at 30 September 2018, in particular those related to the number of redundant employees and their entitlements.	Our audit procedures included the following: ▶ analysed the Group's restructuring plan and considered whether the associated provisions recorded at year end met the requirements of Australian Accounting Standards for recognition; ▶ assessed and tested key assumptions used to determine the restructuring provision; and ▶ selected a sample of restructuring costs recognised and agreed the recorded costs to supporting documentation, such as payroll records and other supporting agreements. In addition, we assessed the adequacy of the disclosures in the Financial Report.

Why significant	How our audit addressed the key audit matter
Information Technology (IT) systems and controls over financial reporting	
A significant part of the Group's financial reporting process is heavily reliant on IT systems with automated processes and controls relating to the capture, storage and extraction of information. A fundamental component of these processes and controls is ensuring appropriate user access and change management protocols exist, and are being adhered to. These protocols are important because they ensure that access and changes to IT systems and related data are made and authorised in an appropriate manner. As our audit approach was predicated upon a high degree of reliance on IT systems and application controls related to financial reporting, a significant proportion of our audit involved procedures in this area.	We focused our audit procedures on those IT systems and controls that are significant to the Group's financial reporting process. As audit procedures over IT systems and controls require specific expertise, we involved our IT specialists. We assessed the design and tested the operating effectiveness of the Group's IT controls, including those related to user access and change management as well as data integrity. Where we noted design and/or operating effectiveness issues, our procedures included the following: ▶ our testing was extended to identify whether there had been unauthorised or inappropriate access or changes made to critical IT systems and related data; ▶ where automated procedures were supported by systems with identified deficiencies, we extended our procedures to test alternative controls; and ▶ where necessary, we increased our testing to validate the integrity and reliability of associated data and reporting.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's Annual Financial Report for the year ended 30 September 2018, but does not include the Financial Report and our auditor's report thereon.

Our opinion on the Financial Report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Building a better
working world

Responsibilities of the Directors for the Financial Report

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

In preparing the Financial Report, the Directors are responsible for assessing the Company's or Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Financial Report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the Financial Report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 39 to 68 of the Report of the Directors for the year ended 30 September 2018.

In our opinion, the Remuneration Report of National Australia Bank Limited for the year ended 30 September 2018 complies with section 300A of the *Corporations Act* 2001.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act* 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Sarah Lowe

Sarah Lowe
Partner
Melbourne

16 November 2018

Twenty largest registered fully paid ordinary shareholders of the company as at 31 October 2018

	Number of shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	606,705,777	22.19
J P MORGAN NOMINEES AUSTRALIA LIMITED	357,937,393	13.09
CITICORP NOMINEES PTY LIMITED	159,706,856	5.84
NATIONAL NOMINEES LIMITED	106,474,671	3.89
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	52,480,632	1.92
BNP PARIBAS NOMS PTY LTD <DRP>	29,939,787	1.10
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	22,221,610	0.81
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	15,831,132	0.58
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	9,342,065	0.34
CPU SHARE PLANS PTY LTD	9,054,473	0.33
AMP GROUP	8,554,084	0.31
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,770,408	0.25
ARGO INVESTMENTS LIMITED	6,055,138	0.22
MILTON CORPORATION LIMITED	4,843,831	0.18
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	4,825,750	0.18
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	4,209,231	0.15
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	4,150,256	0.15
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	4,040,373	0.15
BKI INVESTMENT COMPANY LIMITED	2,772,826	0.10
BNP PARIBAS NOMS (NZ) LTD <DRP>	2,464,853	0.09
Total	**1,418,381,146**	**51.87**

Substantial shareholders

As at 31 October 2018, BlackRock Group and its associated entities were substantial holders in the Company, holding 149,354,409 fully paid ordinary shares.

Distribution of fully paid ordinary shareholdings

	Number of shareholders	% of holders	Number of shares	% of shares
Range (number)				
1 – 1,000	339,779	57.71	129,178,962	4.73
1,001 – 5,000	196,956	33.45	442,432,735	16.18
5,001 – 10,000	32,547	5.53	227,060,133	8.30
10,001 – 100,000	19,047	3.23	391,289,200	14.31
100,001 and over	458	0.08	1,544,159,730	56.48
Total	**588,787**	**100**	**2,734,120,760**	**100**
Less than marketable parcel of $500	17,494		153,570	

Voting rights

Each ordinary shareholder present at a general meeting (whether in person or by proxy or representative) is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held. Holders of partly paid shares voting on a poll are entitled to a number of votes based upon the proportion that the amount of capital call and paid up on the shares bears to the total issue price of the shares.

Twenty largest registered National Income Securities (NIS) holders as at 31 October 2018

	Number of securities	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,114,712	10.57
J P MORGAN NOMINEES AUSTRALIA LIMITED	840,644	4.20
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	608,964	3.04
FORSYTH BARR CUSTODIANS LTD <FORSYTH BARR LTD-NOMINEE A/C>	443,355	2.22
CITICORP NOMINEES PTY LIMITED	439,660	2.20
NATIONAL NOMINEES LIMITED	316,786	1.58
BNP PARIBAS NOMS PTY LTD <DRP>	279,776	1.40
MUTUAL TRUST PTY LTD	187,605	0.94
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	168,737	0.84
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	168,215	0.84
TAVERNERS NO 11 PTY LTD <BRENCORP NO 11 UNIT A/C>	162,073	0.81
LAVA CORPORATION PTY LTD <LAVA UNIT A/C>	137,850	0.69
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	130,933	0.65
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	125,782	0.63
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	119,656	0.60
BNP PARIBAS NOMS (NZ) LTD <DRP>	93,136	0.47
AET CT PTY LIMITED <DDH PREFERRED INCOME FUND>	91,541	0.46
KINGSBY PTY LTD <BIALYSTOCK & BLOOM S/F A/C>	81,328	0.41
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	80,695	0.40
BALMORAL FINANCIAL INVESTMENTS PTY LTD <NO 2 A/C>	74,812	0.38
Total	**6,666,260**	**33.33**

Distribution of NIS holdings

	Number of security holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	25,544	91.55	6,297,037	31.49
1,001 – 5,000	2,085	7.47	4,012,423	20.06
5,001 – 10,000	165	0.59	1,142,671	5.71
10,001 – 100,000	94	0.34	2,303,121	11.52
100,001 and over	15	0.05	6,244,748	31.22
Total	**27,903**	**100**	**20,000,000**	**100**
Less than marketable parcel of $500	55		174	

Voting rights

Holders of NIS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per NIS preference share on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the NIS preference shares.

Twenty largest registered NAB Convertible Preference Shares (NAB CPS) holders as at 31 October 2018

	Number of securities	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	702,413	4.64
NATIONAL NOMINEES LIMITED	266,615	1.76
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	239,799	1.57
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	235,834	1.56
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	194,616	1.29
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	149,849	0.99
J P MORGAN NOMINEES AUSTRALIA LIMITED	140,356	0.93
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	127,566	0.83
BNP PARIBAS NOMS PTY LTD <DRP>	110,198	0.73
CITICORP NOMINEES PTY LIMITED	104,124	0.69
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	103,088	0.68
DIMBULU PTY LTD	100,000	0.66
BERNE NO 132 NOMINEES PTY LTD <684168 A/C>	75,198	0.50
SNEATH & KING PTY LTD <SNEATH & KING S/F A/C>	52,330	0.35
RANDAZZO C & G DEVELOPMENTS PTY LTD	50,000	0.33
BALMORAL FINANCIAL INVESTMENTS PTY LTD <NO 2 A/C>	49,913	0.33
INVIA CUSTODIAN PTY LIMITED <INCOME POOL A/C>	45,200	0.30
INVIA CUSTODIAN PTY LIMITED <DURACK FAMILY ENT P/L A/C>	44,954	0.30
CITICORP NOMINEES PTY LIMITED <DPSL>	43,717	0.29
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	41,161	0.27
Total	**2,876,931**	**19.00**

Distribution of NAB CPS holdings

	Number of security holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	18,172	89.53	6,309,493	41.67
1,001 – 5,000	1,923	9.47	3,974,079	26.24
5,001 – 10,000	128	0.63	957,070	6.32
10,001 – 100,000	64	0.32	1,528,174	10.09
100,001 and over	11	0.05	2,374,458	15.68
Total	**20,298**	**100**	**15,143,274**	**100**
Less than marketable parcel of $500	10		20	

Voting rights

Holders of Convertible Preference Shares (CPS) are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per CPS on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the CPS.

Twenty largest registered NAB Convertible Preference Shares II (NAB CPS II) holders as at 31 October 2018

	Number of securities	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,188,686	6.92
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	235,923	1.37
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	223,316	1.30
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	221,803	1.29
LONGHURST MANAGEMENT SERVICES PTY LTD	210,000	1.22
NATIONAL NOMINEES LIMITED	196,373	1.14
CITICORP NOMINEES PTY LIMITED	162,505	0.95
BERNE NO 132 NOMINEES PTY LTD <684168 A/C>	160,387	0.93
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	157,673	0.92
NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	152,379	0.89
BNP PARIBAS NOMS PTY LTD <DRP>	148,465	0.87
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	142,633	0.83
J P MORGAN NOMINEES AUSTRALIA LIMITED	109,466	0.64
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	99,025	0.58
NAVIGATOR AUSTRALIA LTD <JB WERE LIST FIX INT SMA A/C>	95,946	0.56
CITICORP NOMINEES PTY LIMITED <DPSL>	83,449	0.49
RACQ INVESTMENTS PTY LTD	58,600	0.34
EASTCOTE PTY LTD <VAN LIESHOUT FAMILY A/C>	50,000	0.29
MCCUSKER FOUNDATION LTD <THE MCCUSKER CHARITABLE FNDN>	50,000	0.29
PAMDALE INVESTMENTS PTY LTD	40,950	0.24
Total	**3,787,579**	**22.06**

Distribution of NAB CPS II holdings

	Number of security holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	20,821	90.29	6,971,719	40.60
1,001 – 5,000	2,012	8.72	4,122,787	24.01
5,001 – 10,000	133	0.58	961,120	5.60
10,001 – 100,000	82	0.35	1,806,695	10.52
100,001 and over	13	0.06	3,309,609	19.27
Total	**23,061**	**100**	**17,171,930**	**100**
Less than marketable parcel of $500	6		12	

Voting rights

Holders of Convertible Preference Shares II (CPS II) are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per CPS II on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the CPS II.

Official quotation

Fully paid ordinary shares of the Company are quoted on the ASX.

The Group has also issued:
- National Income Securities, NAB Convertible Preference Shares and NAB Convertible Preference Shares II, NAB Capital Notes, NAB Capital Notes 2, NAB Subordinated Notes 2, covered bonds and residential mortgage backed securities which are quoted on the ASX.
- Trust Preferred Securities, medium-term notes, subordinated notes and covered bonds which are quoted on the Luxembourg Stock Exchange.
- Medium-term notes and subordinated notes which are quoted on the Euro MTF market.
- Subordinated debentures which are quoted on The International Stock Exchange.
- Undated subordinated floating rate notes which are quoted on the London Stock Exchange.
- Medium-term notes and subordinated notes which are quoted on the NZX Debt Market.
- Medium-term notes and covered bonds which are quoted on the SIX Swiss Exchange.
- Medium-term notes which are quoted on the Taipei Exchange.

Unquoted securities

NAB has the following unquoted securities on issue as at 31 October 2018:
- 24,238 partly paid ordinary shares, of which there are 32 holders
- 4,752,582 performance rights, of which there are 130 holders (see page 30 of this report for further details).

Chairman
Dr Kenneth R Henry AC
BCom (Hons), PhD, DB h.c, FASSA, FAIIA

Group Chief Executive Officer and Managing Director
Mr Andrew G Thorburn
BCom, MBA

Group Chief Financial Officer
Mr Gary A Lennon
BEc (Hons), FCA

Registered office
Level 1
800 Bourke Street
DOCKLANDS VIC 3008
Australia
Tel: 1300 889 398
Tel: +61 3 8872 2461

Auditor
Ernst & Young
8 Exhibition Street
MELBOURNE VIC 3000
Australia
Tel: +61 3 9288 8000

Company Secretary
Ms Penelope MacRae
BA (Hons), LLB (Hons)

Group Investor Relations
Level 28
255 George Street
SYDNEY NSW 2000
Australia
Email: investorrelations@nab.com.au

Corporate Responsibility
Postal address:
Corporate Responsibility
National Australia Bank Limited
700 Bourke Street
DOCKLANDS VIC 3008
Australia
Email: corporate.responsibility@nab.com.au

Shareholders' Centre website
The Group's website at www.nab.com.au/shareholder has a dedicated separate section where shareholders can gain access to a wide range of information, including copies of recent announcements, annual financial reports as well as extensive historical information.

Shareholders' Centre information line
There is a convenient 24 hours a day, 7 days a week automated service. To obtain the current balance of your securities and relevant payment details, telephone 1300 367 647 (Australia) or +61 3 9415 4299 (outside Australia).

These services are secured to protect your interests. In all communications with the Share Registry, please ensure you quote your Securityholder Reference Number (SRN), or in case of broker sponsored shareholders, your Holder Identification Number (HIN).

Principal Share Register
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
ABBOTSFORD VIC 3067
Australia

Postal address:
GPO Box 2333
MELBOURNE VIC 3001
Australia

Local call: 1300 367 647
Fax: +61 3 9473 2500
Telephone and fax (outside Australia):
Tel: +61 3 9415 4299; Fax: +61 3 9473 2500

Email: nabservices@computershare.com.au
Website: www.nab.com.au/shareholder

United Kingdom Share Register
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
BRISTOL BS99 6ZZ
United Kingdom

Tel: +44 370 703 0197
Fax: +44 370 703 6101

Email: nabgroup@computershare.co.uk
Website: www.nab.com.au/shareholder

United States ADR Depositary, Transfer Agent and Registrar contact details for NAB ADR holders:
Deutsche Bank Shareholder Services
American Stock Transfer & Trust Company
Peck Slip Station
P.O. Box 2050
NEW YORK NY 10272-2050
United States of America

Toll-free number: +1 866 706 0509
Direct Dial: +1 718 921 8137
Email: DB@amstock.com

Contact details for NAB ADR brokers & institutional investors:
US Tel: +1 212 250 9100
UK Tel: +44 207 547 6500
Email: adr@db.com

Term Used	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.
90+ Days past due and gross impaired assets to GLAs	Loans and advances 90+ days past due but not impaired and impaired assets expressed as a percentage of Gross loans and acceptances. Calculated as the sum of 'Loans and advances past due but not impaired (Past due over 90 days)' and 'Gross impaired assets' divided by Gross loans and acceptances.
AASB	Australian Accounting Standards Board.
ACCC	Australian Competition and Consumer Commission.
ADI	Authorised Deposit-taking Institution.
ADR	American Depositary Receipt.
AGM	Annual General Meeting.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to ADIs.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange Limited.
Assets under management (AUM)	Represents the market value of funds for which the Group acts as funds adviser or investment manager.
Average equity (adjusted)	Average equity (adjusted) is adjusted to exclude non-controlling interests and other equity instruments, when calculated on a statutory basis. When calculated on a cash earnings basis, average equity (adjusted) is further adjusted for Treasury shares.
Average interest earning assets	The average balance of assets held by the Group over the period that generate interest income.
Bank levy	A levy imposed under the *Major Bank Levy Act 2017* (Cth) on ADIs with total liabilities of more than $100 billion.
Basel III	Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and is effective for ADIs from 1 January 2013.
BBSW	Bank Bill Swap Rate.
BNZ	Bank of New Zealand.
Business and Private Banking	Business and Private Banking focusses on serving the needs of three of NAB's priority customer segments – small businesses, medium businesses and investors. Customers are served through an integrated banking model locally led by managing partners through business banking centres and through the small business customer hubs. This includes specialists Health, Agribusiness, Government, Education, Community and Franchising (GECF), Professional Services and Commercial Real Estate. The division also serves High Net Worth customers through the Private Bank and JBWere.
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	Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the September 2018 financial year has been adjusted for the following: - Distributions. - Fair value and hedge ineffectiveness. - Amortisation of acquired intangible assets. - MLC Wealth divestment transaction costs.
Cash net interest income (Cash NII)	Cash NII is derived from statutory net interest income, including management adjustments for fair value hedge ineffectiveness and a reclassification of income from the NAB Wealth Business that management considers better reflected in net interest income for their purposes. In these financial statements, there is no material difference between Cash NII and statutory net interest income.
Cash return on equity (cash ROE)	Cash earnings after tax expressed as a percentage of average equity (adjusted), calculated on a cash earnings basis. Refer to 'Information about cash earnings' on page 5 for further information in relation to cash earnings.
CGU	Cash-generating unit.
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 profits, undistributed current year earnings, as well as other elements as defined under APS 111 *Capital Adequacy: Measurement of Capital*.
Common Equity Tier 1 Ratio	CET1 capital divided by RWA.
Company	National Australia Bank Limited (NAB) ABN 12 004 044 937.

Term Used	Description
Consumer Banking and Wealth	Consumer Banking and Wealth comprises the NAB and UBank consumer banking divisions, and the Wealth divisions of Advice, Asset Management and Superannuation. The division provides customers with access to independent advisers, including mortgage brokers and the financial planning network of self-employed, aligned and salaried advisers in Australia.
Continuing Operations	Continuing operations are the components of the Group which are not discontinued operations.
Core assets	Represents gross loans and advances including acceptances, financial assets at fair value, and other debt instruments at amortised cost.
Corporate and Institutional Banking	Corporate and Institutional Banking provides a range of lending and transactional products and services related to financial and debt capital markets, specialised capital, custody and alternative investments. The division serves its customers in Australia and globally through branches in the US, UK and Asia with specialised industry relationships and product teams.
Corporate Functions and Other	The Group's 'Corporate Functions' business includes functions that support all businesses, including Treasury, Technology and Operations, Support Units and Eliminations. Treasury acts as the central vehicle for movements of capital and structural funding to support the Group's operations, together with capital, balance sheet management and the liquid asset portfolio.
Customer deposits	The sum of 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.
CYBG	CYBG PLC.
CYBG Group	CYBG PLC and its controlled entities.
Deferred STI shares	Deferred STI shares form part of the Short-term incentives (STI) equity-based plan. They are NAB ordinary shares, allocated at no charge to the employee, in respect of prior year performance, which provide dividend income to the employee from allocation.
Demerger	The demerger of CYBG Group from NAB.
Discontinued Operations	Discontinued operations are a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, which is part of a single co-ordinated plan for disposal.
Distributions	Payments to holders of other equity instrument issues such as National Income Securities and Trust Preferred Securities.
EaR	Earnings at risk.
Earnings per share (EPS)	Basic and diluted earnings per share calculated in accordance with the requirements of AASB 133 *Earnings per Share*.
Face value	The face value of each performance right is determined by the market value of a NAB share. NAB generally uses a five day weighted average share price to determine the face value at grant and on allocation.
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 from the Group's assets and liabilities designated at fair value, hedge accounting ineffectiveness from designated accounting hedge relationships, or from economic hedges where hedge accounting has not been applied.
Fair value (for the purposes of equity awards set out in the Remuneration Report)	The value of the awards provided are measured by reference to the grant date fair value of the shares and performance rights provided to employees. The grant date fair value of each share is determined by the market value of NAB shares, and is generally a five day weighted average share price. The fair value of the shares and performance rights with market performance hurdles is determined using a simulated version of the Black-Scholes model.
FCA	Financial Conduct Authority (formerly the UK Financial Service Authority).
FSB	Financial Stability Board.
Full-time equivalent employees (FTEs)	Includes all full-time employees, part-time, temporary, fixed term and casual employee equivalents, as well as agency temporary employees and external contractors either self-employed or employed by a third party agency. Note: This does not include consultants, IT professional services, outsourced service providers and non-executive directors.
Funds under management and administration (FUM/A)	Represents the market value of funds administered by the Group excluding AUM.
FVOCI	Fair Value through Other Comprehensive Income.
G-SIB	Global Systemically Important Bank.
Gross Domestic Product (GDP)	GDP is the market value of the finished goods and services produced within a country in a given period of time.

Term Used	Description
Gross Loans and Acceptances (GLAs)	The total loans, advances and acceptances, including unearned and deferred fee income, excluding associated provisions for expected credit losses. Calculated as the sum of 'Acceptances', 'Loans at fair value', and 'Total gross loans and advances'.
Group	NAB and its controlled entities.
High Quality Liquid Assets (HQLA)	HQLA refers to high quality liquid assets determined in accordance with APS 210 *Liquidity* (APS210). These assets include notes and coins, central bank reserves and highly rated marketable securities issued or guaranteed by central banks or governments.
Housing lending	Mortgages secured by residential properties as collateral.
IFRS	International Financial Reporting Standards.
Impaired assets	Consist of: - Retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue; - Non-retail loans which are contractually past due and / or there is sufficient doubt about the ultimate collectability of principal and interest; and - Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off).
IRB approach	The internal ratings based (IRB) approach refers to the processes employed by the Group to estimate credit risk. This is achieved through the use of internally developed models to assess the potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.
Key Management Personnel (KMP)	KMP are the directors of NAB and senior executives of the Group who have authority and responsibility of planning, directing and controlling activities of both NAB and the Group.
Leverage Ratio	A simple, non-risk based supplementary measure that uses exposures to supplement the risk-weighted assets based capital requirements and is prepared in accordance with APS 110 *Capital Adequacy.*
Lifetime expected credit losses (ECL)	The expected credit losses that result from all possible default events over the expected life of a financial instrument.
Liquidity Coverage Ratio (LCR)	LCR measures the amount of high quality liquid assets held that can be converted to cash easily and immediately in private markets, to total net cash flows required to meet the Group's liquidity needs for a 30 calendar day liquidity stress scenario.
Marketable debt securities	Comprises trading securities and debt instruments.
NAB	National Australia Bank Limited ABN 12 004 044 937.
Net interest margin (NIM)	Net interest income derived on a cash earnings basis expressed as a percentage of average interest earning assets.
Net Promoter Score (NPS)	Net Promoter Score measures the net likelihood of recommendation to others of the customer's main financial institution for retail or business banking. Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.
Net Stable Funding Ratio (NSFR)	NSFR is a measure announced as part of the Basel III liquidity reforms that became effective on 1 January 2018. The ratio establishes a minimum acceptable amount of stable funding (the portion of those types and amounts of equity and liability financing expected to be reliable sources of funds over a one-year time horizon under conditions of extended stress) based on the liquidity characteristics of an ADI's assets and activities over a one-year horizon.
New Zealand Banking	New Zealand Banking comprises the Consumer Banking, Wealth, Business, Agribusiness, Corporate and Insurance franchises and Markets Sales operations in New Zealand, operating under the 'Bank of New Zealand' brand. It excludes Bank of New Zealand's Markets Trading operations.
Official Cash Rate (OCR)	Official Cash Rate is an interest rate set by the Reserve Bank of New Zealand.
PRA	United Kingdom Prudential Regulation Authority.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
Restructuring-related costs	Consist of personnel, occupancy, software impairment and other general charges recognised as part of acceleration of the Group's strategy announced in November 2017.
Return on Total Allocated Equity (ROTAE)	ROTAE is a function of cash earnings, Risk Weighted Assets, regulatory capital deductions and target capital ratios.
Risk-weighted assets (RWA)	A quantitative measure of 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.
RMBS	Residential Mortgage Backed Securities.
Royal Commission	The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry established on 14 December 2017 by the Governor-General of the Commonwealth of Australia to conduct a formal public inquiry into Australian financial institutions.

Term Used	Description
Securitisation	Structured finance technique which involves pooling and packaging cash-flow converting financial assets into securities that can be sold to investors.
Senior executives	The Executive Leadership Team, excluding the Group CEO.
Short-term incentive (STI)	An 'at risk' opportunity for individuals to receive an annual performance-based reward. The actual STI reward that an individual will receive in any particular year will reflect both business and individual performance.
Special Purpose Entity (SPE)	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). An SPE may take the form of a corporation, trust, partnership or unincorporated entity. SPEs are often created with legal arrangements that impose strict limits on the activities of the SPE.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Statutory return on equity (ROE)	Statutory earnings after tax expressed as a percentage of Average equity (adjusted), calculated on a statutory basis.
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 that meet the criteria for inclusion as Additional Tier 1 capital set out in APS 111 *Capital Adequacy: Measurement of Capital*.
Tier 1 capital ratio	Tier 1 capital divided by RWA.
Tier 2 capital	Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.
Total average assets	The average balance of assets held by the Group over the period, adjusted for disposed operations. Disposed operations include any operations that will not form part of the continuing Group. These include operations sold and those which have been announced to the market that have yet to reach completion. Refer to 'Average balances' on page 5 for further information in relation to the calculation of average balances, including Total average assets.
Total capital	The sum of Tier 1 capital and Tier 2 capital.
Total capital ratio	Total capital divided by RWA.
Total Shareholder Return (TSR)	Total Shareholder Return (TSR) is a concept used to compare the performance of different companies' securities over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The absolute size of the TSR will vary with stock markets, but the relative position reflects the market perception of overall performance relative to a reference group.
Treasury shares	Shares issued to meet the requirements of employee incentive schemes which have not yet been distributed.
Underlying profit	Underlying profit is a performance measure used by NAB. It represents cash earnings before various items, including income tax expense and the credit impairment charge. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards.
VaR	Value at Risk.
Wealth	Wealth provides superannuation, investment and insurance solutions to retail, corporate and institutional clients. Wealth operates one of the largest networks of financial advisers in Australia.
Weighted average number of ordinary shares	Calculated in accordance with the requirements of AASB 133 *Earnings per Share*.

PRINCIPAL ESTABLISHMENTS

National Australia Bank Limited
Level 1, 800 Bourke Street
Docklands VIC 3008
Australia

If calling within Australia
1300 889 398

If calling internationally
+61 3 8872 2461

www.nab.com.au

New York Branch
28th Floor, 245 Park Avenue
New York NY 10167
United States of America

Tel: +1 212 916 9500
Fax: +1 212 986 5252

National Wealth Management Holdings Limited
Ground Floor, MLC Building
105 – 153 Miller Street
North Sydney NSW 2060
Australia

Tel: 13 26 52

Hong Kong Branch
Level 27 One Pacific Place
88 Queensway
Hong Kong

Tel: + 852 2826 8111
(HK Branch General line)
(HK Branch)
Fax: + 852 2845 9251
(HK Branch General line)
(HK Branch)

www.nab.com.au/corporate

London Branch
88 Wood Street
London EC2V 7QQ
England
United Kingdom

Tel: +44 (0)20 7710 2100

Singapore Branch
12 Marina View
#20-02 Asia Square Tower 2
Singapore 018961

Tel: + 65 6419 7000
Fax: + 65 6336 0067

www.nab.com.au/corporate

National Australia Financial Management Limited
Ground Floor, MLC Building
105 – 153 Miller Street
North Sydney NSW 2060
Australia

Tel: 13 26 52

Tokyo Branch
Muromachi Higashi Mitsui Building 18F
2-2-1 Nihonbashi Muromachi
Chuo-ku
Tokyo 103-0022
Japan

Tel: + 81 3 3241 8781
Fax: + 81 3 3241 8951

www.nab.com.au/corporate

NAB Asset Servicing
12/500 Bourke Street
Melbourne VIC 3000

Correspondence to:
GPO Box 1406
Melbourne VIC 3001
Australia

Tel: +61 3 8641 0297
Fax: +61 1300 556 414
SWIFT: NATAAU3303X

www.nab.com.au/assetservicing

Beijing Branch
Unit 01, 29 - 32, Level 23
China World Office 1
No. 1 Jian Guo Men Wai Avenue
Beijing 100004
China

Tel: +86 10 6535 9800
Fax: +86 10 6505 8836

www.nab.com.au/corporate

Shanghai Branch
Suite 4201 – 4204 42nd Floor, One Lujiazui
68 Middle Yincheng Road
Pudong
Shanghai 200120
China

Tel : + 86 21 2089 0288
Fax : + 86 21 6100 0531

www.nab.com.au/corporate

Bank of New Zealand
Level 4
80 Queen Street
Auckland 1010
New Zealand

Tel: +64 9 375 1300

www.bnz.co.nz

Indonesia Representative Office
106E, 6th Floor
Sentral Senayan I
JI. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta Pusat 10270
Indonesia

Tel : + 62 21 572 4111
Fax : + 62 21 572 4120

www.nab.com.au/corporate

Mumbai Branch
901, 9th Floor
Nariman Bhavan, 227 Backbay Reclamation
Nariman Point
Mumbai 400 021
India

Tel: +91 22 6198 8200
Fax: +91 22 6198 8299

www.nab.com.au/corporate

Vietnam Representative Office
14th Floor, CornerStone Building
16 Phan Chu Trinh Street
Hoan Kiem District
Hanoi
Vietnam

Tel: +84 4 3937 8889
Fax: +84 4 3936 5725

www.nab.com.au/corporate

www.nab.com.au/shareholder

The cover of this publication is printed on Revive Laser paper stock. Revive Laser is 100% Recycled, manufactured from Forest Stewardship Council® (FSC®) Recycled certified fibre and manufactured carbon neutral. It is produced by an ISO14001 (environmental management system) certified mill. No chlorine bleaching occurs in the recycling process.

The text of this publication is printed on Sumo Laser paper stock. Sumo Laser is produced using Elemental Chlorine Free (ECF), FSC® certified Mixed Source pulp from Responsible Sources and manufactured under the strict ISO14001 Environmental Management System.

The printer's operation is accredited to ISO 14001 and ISO 9001 (quality management system) standards and holds FSC® (chain of Custody) certification.

This publication is fully recyclable, please dispose of wisely. Emissions generated from the production of this Annual Financial Report have been offset. Offsets corresponding to 15,056kg of CO_2-e have been retired.

MIX
Paper from responsible sources
FSC™ C015144
www.fsc.org