

FULL YEAR RESULTS 2018



National
Australia
Bank

"It's been an extraordinary relationship and if it wasn't for NAB, we wouldn't be where we are now."

Campbells Wines,
NAB customer

Jane Campbell

Colin Campbell

Incorporating the requirements of Appendix 4E

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

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Results for announcement to the market

Report for the full year ended 30 September 2018

						30 September 2018
						\$m
Revenue from ordinary activities ⁽¹⁾	page 56	up	6.0%	*	to	19,101
Net profit after tax from ordinary activities attributable to owners of NAB	page 56	up	5.1%	*	to	5,554
Net profit attributable to owners of NAB	page 56	up	5.1%	*	to	5,554

* On prior corresponding period (twelve months ended 30 September 2017).

	Amount per share cents	Franked amount per share %
Dividends		
Final dividend	99	100
Interim dividend	99	100
Record date for determining entitlements to the final dividend		9 November 2018

A Glossary of Terms is included in Section 7.

A reference in this Appendix 4E to 'the Group', 'the Bank', 'us', 'we' or 'our' is a reference to NAB and its controlled entities. All currency amounts are expressed in Australian dollars unless otherwise stated. References in this document to the September 2018 year are references to the twelve months ended 30 September 2018. Other twelve month periods are referred to in a corresponding manner. The Group's consolidated financial statements, prepared in accordance with the *Corporations Act 2001* (Cth), are included in Section 5. See page 103 for a complete index of ASX Appendix 4E requirements.

⁽¹⁾ Required to be disclosed by Appendix 4E. Reported as the sum of the following from the Group's consolidated income statement: Net interest income \$13,505 million and total other income \$5,596 million. On a cash earnings basis revenue increased by 0.5%. Refer to information on cash earnings on page 3 of Section 1, of the 2018 full year results.

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FULL YEAR RESULTS SUMMARY 2018

Campbells Wines,
NAB customer

Jane & Colin Campbell

2018 FINANCIAL HIGHLIGHTS

\$5,554m

Statutory
net profit

\$5,702m

Cash earnings¹
Down 14.2% v FY17

\$6,493m cash earnings
ex restructuring-related
costs of \$755m and
customer-related
remediation of \$360m
Down 2.2% v 2017

99CPS

Final dividend
100% franked

10.20%

Group Common Equity
Tier 1 (CET1) ratio



We are making progress to be a better bank for our customers, employees and owners. While 2018 has been a challenging year, our transformation is on track and benefits are emerging as we become simpler and faster.

Our FY18 result was impacted by restructuring-related costs and customer-related remediation, with cash earnings 14% lower than FY17. Excluding these items, cash earnings declined 2% due to higher investment spend as we accelerate investment to transform our business. Pleasingly, revenue was higher with good lending growth and stable margins.

Asset quality and balance sheet metrics remain sound, and we have a clear path to achieving APRA's unquestionably strong CET1 target of 10.5% by January 2020.

Performance of our Business & Private Banking division, our leading SME franchise, was a real highlight with strong revenue and business lending growth.

We are listening and responding to customers, including to Royal Commission issues, and are proactively taking steps to be more customer focussed, as we strive to be Australia's leading bank, trusted by customers for exceptional service.



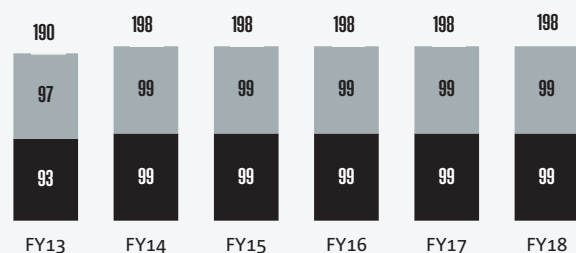
ANDREW THORBURN
NAB CEO

DELIVERING FOR OUR SHAREHOLDERS

DIVIDENDS DECLARED (CPS)

In respect of each financial year period

■ Interim ■ Final



BACKING OUR CUSTOMERS & THE COMMUNITY IN 2018

- Priority Segments Net Promoter Score (NPS)² for September 2018 down 4 points over the year to -16, partly reflecting an overall industry decline, with NAB now second of major banks
- 97% of staff from FY19 rewarded on balance of outcomes and behaviours under the Group Variable Reward Plan and not specialist sales incentives (85% in FY18)
- Established a centre for customer remediation to fix customer issues faster
- Supporting rural and regional customers with a drought assistance package including a commitment to not close branches in drought declared areas

¹ Refer cash earnings note and reconciliation on page 6.

² Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Priority Segments Net Promoter Score (NPS) is a simple average of the NPS scores of four priority segments: NAB defined Home Owners (Home Loan @ Bank) and Investors, as well as Small Business (\$0.1m-<\$5m) and Medium Business (\$5m-<\$50m). The Priority Segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research.

NAB 2018 FULL YEAR RESULTS

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

OPERATING PERFORMANCE FY18 V FY17

- Revenue up 0.5%, but excluding customer-related remediation rose 1.8% mainly reflecting growth in housing and business lending and stable margins, partly offset by lower Markets & Treasury³ income.
- Net Interest Margin was flat at 1.85% but excluding Markets and Treasury increased 3 basis points (bps), reflecting the impact of prior period repricing and lower funding costs, partly offset by the bank levy and home lending competition.
- Expenses rose 17.8%, but excluding restructuring-related costs and customer-related remediation increased 6.4%, mainly due to acceleration of investment spend announced in FY17.

FY18 V FY17 DRIVERS OF CASH EARNINGS CHANGE

(ex restructuring-related costs and customer-related remediation⁴)



"FY18 expense growth of 6.4%⁴ reflects additional investment in customer and technology initiatives. This is consistent with our commitment to reshape and simplify our business, and within previously announced FY18 expense guidance of 5-8%⁵.

We continue to target broadly flat expenses over FY19-20⁵."

ASSET QUALITY FY18 V FY17

- Credit impairment charges declined 3.8% to \$779 million, and as a percentage of gross loans and acceptances declined 1bp to 13bps.
- FY18 charges include \$130 million of additional collective provision forward looking adjustments for targeted sectors experiencing elevated levels of risk.
- Asset quality remained broadly stable with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances up 1bp to 0.71%.

CREDIT IMPAIRMENT CHARGES (\$ MILLIONS)



90+ DAYS PAST DUE & GROSS IMPAIRED ASSETS/GROSS LOANS AND ACCEPTANCES (%)



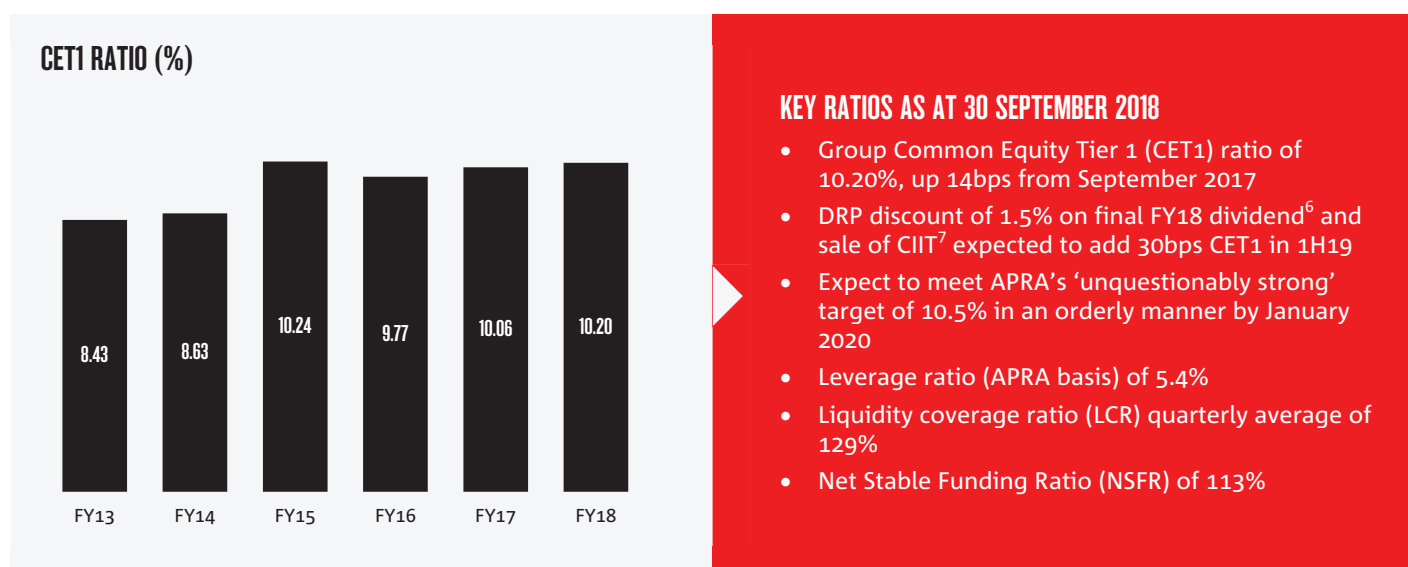
"Asset quality remained stable, benefitting from sound economic conditions and prudent risk settings. Collective provision forward looking adjustments for targeted sectors were increased over FY18 and now stand at \$581 million."

³ Markets and Treasury income represents customer risk management and NAB risk management income.

⁴ FY18 revenue excludes customer-related remediation of \$249 million. FY18 expenses exclude customer-related remediation costs of \$111 million and restructuring-related costs of \$755 million. Underlying profit represents cash earnings before credit impairment charges, income tax and distributions. Refer note on cash earnings and reconciliation on page 6.

⁵ Excluding 1H18 restructuring-related costs and large notable expenses which include significant customer-related remediation costs. Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7.

CAPITAL, FUNDING & LIQUIDITY



DIVISIONAL PERFORMANCE – CASH EARNINGS⁸

	FY18 (\$M)	% CHANGE FY18 V FY17	HIGHLIGHTS FY18 V FY17
Business & Private Banking	2,911	2.5	Increased earnings with good revenue growth reflecting stronger SME business lending and higher margins, partly offset by increased operating expenses due to acceleration of investment spend combined with higher credit impairment charges.
Consumer Banking & Wealth	1,539	(5.8)	Lower earnings due to a decline in the housing margin and an acceleration of investment spend in new capabilities to improve customer experience and deliver the new payments platform. Housing margins declined due to intense competition and a change in lending mix.
Corporate & Institutional Banking	1,541	0.4	A stable result with increased non-Markets revenue and lower credit impairment charges, offset by lower Markets revenue and accelerated investment spend.
New Zealand Banking (NZ\$M)	1,004	6.7	A strong result with increased revenue benefitting from higher margins and good lending growth, partly offset by accelerated investment.

⁶ Assuming a DRP participation rate of 35%.

⁷ China Industrial International Trust.

⁸ Excludes restructuring-related costs and customer-related remediation which form part of Corporate Functions and Other.

STRATEGIC OVERVIEW⁹

A year on from announcing the acceleration of our strategy, we are becoming a simpler bank, providing faster and better outcomes, with greater focus on our customers. Our transformation is the right plan, particularly given the challenging operating environment, and is on track and making good progress. This includes a \$1.5 billion increase in investment over the three years to September 2020 bringing total investment spend to approximately \$4.5 billion. During FY18 we invested \$1.5 billion, focussed on delivering a better customer experience and more reliable and resilient technology.

An important focus of our accelerated investment is Best Business Bank – a significant uplift in capability and innovation in our already leading SME franchise. For our small business customers, Quickbiz is increasingly providing fast digital access to unsecured lending, now 35% of all new small business lending accounts, and our metropolitan-based small business customers are being serviced via a new customer hub open 7 days a week with extended operating hours. In conjunction with increasing geographic expansion of our specialised banking services, our bankers now have greater capacity to support the needs of more complex customers with revenue per relationship banker 10% higher over FY18.

Our simplification agenda is gaining traction. Over FY18 we simplified our product offering reducing product numbers from approximately 600 to fewer than 500. IT applications fell 5% and 3% were migrated to the Cloud creating more flexible, lower cost technology platforms. Over-the-counter transactions fell by 15% as we rolled out more Smart ATMs.

To support strong population growth in Greater Western Sydney and Greater Melbourne¹⁰, we have added or relocated 40 bankers to service these growth corridors, combined with 7 new or refreshed points of presence. UBank, our digital bank, is accelerating its standalone attacker strategy with a 17% increase in customers over FY18 and home lending growth 4 times system rates in 2H18. During FY18 we also closed 63 global infrastructure deals worth approximately \$48 billion in total project debt, leveraging the Group's top 15 global position in infrastructure financing¹¹.

The reshaping of our workforce is progressing. During FY18 approximately 1,900 FTE employees left NAB against a target of 6,000 by FY20. Restructuring-related costs of \$755 million raised in 1H18 relate primarily to costs associated with workforce reductions. We are committed to treating these employees with care and respect, and most of those impacted accessed support and career transition services from The Bridge. Within its first six months of operation 40% of Bridge users successfully transitioned to their desired pathways, including new positions, vocational training, self-employment or retirement. Our transformation requires new skills and during FY18 we hired nearly 200 new FTE employees as we build towards our target of up to 2,000, and insourced 542 roles bolstering technology, operations, data analytics and digital capabilities.

We continue to expect cumulative cost savings of at least \$1 billion by 30 September 2020, as we simplify and automate processes, reduce procurement and third party costs, and get closer to customers with a flatter organisational structure. In FY18 cost savings of approximately \$320 million were achieved. FY18 expense growth of 6.4% (excluding restructuring-related provisions and customer-related remediation) is consistent with our accelerated investment and our FY17 announced expectation of 5-8% expense growth. We continue to target FY19 and FY20 expenses to remain broadly flat excluding large notable expenses¹².

Since announcing the reshaping of our wealth business, we have made good progress towards separating MLC ahead of a targeted public market listing by the end of 2019 calendar year, including appointment of Geoff Lloyd as MLC CEO.

We are operating in a challenging environment and remain alert to risks. The Royal Commission has raised instances where we failed to treat customers with care and respect. We are determined to put things right and are taking steps to build a better bank. In 2H18 we recognised customer-related remediation of \$360 million¹³ including refunds and compensation to customers impacted by issues in NAB Wealth. 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.

There is still much to do to become the bank we want to be for our customers but we are confident we are making good progress and have the right strategy and team in place to achieve our vision of being Australia's leading bank, trusted by customers for exceptional service.

KEY LONG TERM OBJECTIVES⁹

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

⁹ Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7

¹⁰ 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

¹¹ IJGlobal League tables (2018)

¹² Notable expenses includes significant customer-related remediation

¹³ Excludes costs of \$75 million reported in Discontinued Operations

NAB'S ROLE IN THE COMMUNITY

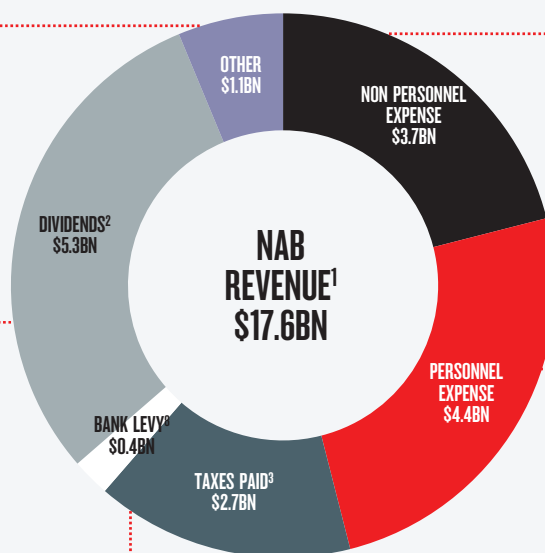
NAB REVENUE

- Supports all stakeholders and business partners
- Is shown after interest payments to 4.8 million Australian and New Zealand retail and business deposit customers who have deposited over \$405 billion with us

RESTRUCTURING-RELATED COSTS AND CUSTOMER-RELATED REMEDIATION

SHAREHOLDERS (INC. SUPER FUNDS)

- Over 584,000 shareholders
- 97% in Australia and New Zealand



GOVERNMENT

- Australia's third largest income tax payer⁴
- Signatory to the Voluntary Tax Transparency Code

SUPPLIERS & COMMUNITY

- +1,800 supplier agreements
- +31,700 microfinance loans provided⁵
- Carbon neutral since 2010, 78% of Australian key office buildings⁵ are Green Star Rated
- +\$6m in-kind value of volunteering to charitable organisations

OUR PEOPLE

- Employ 33,283 people⁷
- Over 50% of our workforce directly engages with customers
- Focussed on building the talent and capability to move NAB forward

Figures based on NAB's FY18 cash earnings

1. Revenue shown net of \$0.8bn of credit impairment charges and gross of \$0.4bn of Bank Levy
2. Dividends declared in respect of FY18
3. Includes income tax, GST, FBT, payroll tax and other taxes borne by NAB that were paid during the twelve months ended 30 September 2018
4. Based on ATO's "Report of Entity Tax Information" for the 2015-16 income year released on 7 December 2017
5. To Australians, delivered in partnership with Good Shepherd Microfinance
6. 'Key office buildings' are all NAB commercial tenancies over 4,000m²
7. Represents full time equivalent employees as at 30 September 2018 for NAB Group
8. Bank Levy paid in FY18

ECONOMIC OUTLOOK

"The outlook for the Australian and New Zealand economies remains positive. In Australia, solid economic growth is supported by strong government infrastructure spending, mining exports and improving non mining business investment. Increasing potential also exists for a pick-up in mining investment. Solid population growth and low unemployment continue to limit risks from a slowing housing cycle, and while the consumer sector remains subdued, a modest increase in wages growth is expected with a tightening labour market."

NAB 2018 FULL YEAR RESULTS

GROUP PERFORMANCE RESULTS¹⁴

Cash earnings is a key financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. NAB also uses cash earnings for its internal management reporting, as it better reflects what NAB considers to be the underlying performance of the Group. Cash earnings is not a statutory financial measure, is not presented in accordance with Australian Accounting Standards, and is not audited or reviewed in accordance with Australian Auditing Standards. Full detail on how cash earnings is defined, a discussion of non-cash earnings items and a full reconciliation of statutory net profit attributable to owners of NAB for the year ended 30 September 2018 is set out on pages 2 to 8 of the 2018 Full Year Results Announcement under the heading "Profit Reconciliation".

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Net interest income	13,467	13,166	2.3	6,717	6,750	(0.5)
Other operating income ¹⁵	4,759	4,729	0.6	2,416	2,343	3.1
Customer-related remediation ¹⁶	(249)	-	large	(249)	-	large
Net operating income	17,977	17,895	0.5	8,884	9,093	(2.3)
Operating expenses ¹⁷	(8,126)	(7,635)	6.4	(4,137)	(3,989)	3.7
Restructuring-related costs ¹⁸	(755)	-	large	-	(755)	large
Customer-related remediation ¹⁸	(111)	-	large	(111)	-	large
Underlying profit	8,985	10,260	(12.4)	4,636	4,349	6.6
Credit impairment charge	(779)	(810)	(3.8)	(406)	(373)	8.8
Cash earnings before tax and distributions	8,206	9,450	(13.2)	4,230	3,976	6.4
Income tax expense	(2,404)	(2,710)	(11.3)	(1,236)	(1,168)	5.8
Cash earnings before distributions	5,802	6,740	(13.9)	2,994	2,808	6.6
Distributions	(100)	(98)	2.0	(51)	(49)	4.1
Cash earnings	5,702	6,642	(14.2)	2,943	2,759	6.7
Cash earnings (excluding restructuring-related costs and customer-related remediation)	6,493	6,642	(2.2)	3,204	3,289	(2.6)
<i>Non-cash earnings items (after tax):</i>						
Distributions	100	98	2.0	51	49	4.1
Fair value and hedge ineffectiveness	182	(500)	large	101	81	24.7
Amortisation of acquired intangible assets	(30)	(62)	(51.6)	(15)	(15)	-
MLC Wealth divestment transaction costs	(12)	-	large	(12)	-	large
Net profit from continuing operations	5,942	6,178	(3.8)	3,068	2,874	6.8
Net loss after tax from discontinued operations	(388)	(893)	(56.6)	(97)	(291)	(66.7)
Net profit attributable to owners of NAB	5,554	5,285	5.1	2,971	2,583	15.0
Represented by:						
Business and Private Banking	2,911	2,841	2.5	1,429	1,482	(3.6)
Consumer Banking and Wealth	1,539	1,633	(5.8)	735	804	(8.6)
Corporate and Institutional Banking	1,541	1,535	0.4	763	778	(1.9)
NZ Banking	922	882	4.5	470	452	4.0
Corporate Functions and Other ¹⁷	(420)	(249)	(68.7)	(193)	(227)	15.0
Restructuring-related costs	(530)	-	large	-	(530)	large
Customer-related remediation	(261)	-	large	(261)	-	large
Cash earnings	5,702	6,642	(14.2)	2,943	2,759	6.7

SHAREHOLDER SUMMARY

	Year to			Half Year to		
	Sep 18	Sep 17	Sep 18 v Sep 17	Sep 18	Mar 18	Sep 18 v Mar 18
Group						
Dividend per share (cents)	198	198	-	99	99	-
Dividend payout ratio	94.1%	79.4%	large	91.5%	96.9%	(540 bps)
Statutory earnings per share (cents) – basic	201.3	194.7	6.6	107.3	93.9	13.4
Statutory earnings per share (cents) – diluted	194.0	189.1	4.9	103.4	91.1	12.3
Statutory earnings per share from continuing operations (cents) – basic	215.6	228.2	(12.6)	110.9	104.7	6.2
Statutory earnings per share from continuing operations (cents) – diluted	207.2	220.1	(12.9)	106.6	101.0	5.6
Cash earnings per share (cents) – basic	210.4	249.3	(38.9)	108.2	102.2	6.0
Cash earnings per share (cents) – diluted	202.4	239.7	(37.3)	104.1	98.8	5.3
Statutory return on equity	11.2%	10.9%	30 bps	11.9%	10.5%	140 bps
Cash return on equity (ROE)	11.7%	14.0%	(230 bps)	12.0%	11.4%	60 bps
Group (excluding restructuring-related costs and customer-related remediation)						
Dividend payout ratio	82.6%	79.4%	320 bps	84.0%	81.2%	280 bps
Statutory earnings per share (cents) – basic	230.5	194.7	35.8	116.9	113.5	3.4
Statutory earnings per share (cents) – diluted	220.9	189.1	31.8	112.2	109.2	3.0
Statutory earnings per share from continuing operations (cents) – basic	244.8	228.2	16.6	120.5	124.3	(3.8)
Statutory earnings per share from continuing operations (cents) – diluted	234.1	220.1	14.0	115.5	119.2	(3.7)
Cash earnings per share (cents) – basic	239.6	249.3	(9.7)	117.8	121.9	(4.1)
Cash earnings per share (cents) – diluted	229.3	239.7	(10.4)	113.0	117.0	(4.0)
Statutory return on equity	12.8%	10.9%	190 bps	13.0%	12.6%	40 bps
Cash return on equity (ROE)	13.3%	14.0%	(70 bps)	13.1%	13.6%	(50 bps)

¹⁴ Information is presented on a continuing operations basis.

¹⁵ Excluding customer-related remediation.

¹⁶ Refer to NAB's 2018 Full Year Results Announcement Note 3 Other Income for further information.

¹⁷ Excluding restructuring-related costs and customer-related remediation.

¹⁸ Refer to NAB's 2018 Full Year Results Announcement Note 4 Operating Expenses for further information.

FOR FURTHER INFORMATION

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DISCLAIMER – FORWARD LOOKING STATEMENTS

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

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

Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained in the Group's Luxembourg Transparency Law disclosures released to the ASX on 3 May 2018 and the Group's Annual Financial Report for the 2018 financial year, which will be available at www.nab.com.au on 16 November 2018.

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Section 1

Profit Reconciliation

Information about Cash Earnings and other Non-IFRS Measures

2

Information about Cash Earnings and other Non-IFRS Measures

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

Non-IFRS key financial performance measures used by the Group

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

Explanation and Definition of Cash Earnings

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

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

- distributions
- fair value and hedge ineffectiveness
- amortisation of acquired intangible assets
- MLC Wealth divestment transaction costs.

Reconciliation to Statutory Net Profit

Section 5 of the 2018 Full Year Results Announcement contains the Group's income statement, including statutory net profit. The statutory net profit for the period is the sum of both net profit / (loss) from continuing operations and discontinued operations. Further details are set out in *Note 14 Discontinued operations* on page 82. The Group's audited financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and applicable Australian Accounting Standards, will be

published in its 2018 Annual Financial Report on 16 November 2018.

A reconciliation of cash earnings to statutory net profit attributable to owners of NAB (statutory net profit, less non-controlling interest in controlled entities) is set out on page 3, and full reconciliations between statutory net profit and cash earnings are included in this section on pages 5-8.

Page 4 contains a description of non-cash earnings items for the September 2018 full year.

Average Balances

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

Group Results ⁽¹⁾

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

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Net interest income	13,467	13,166	2.3	6,717	6,750	(0.5)
Other operating income ⁽²⁾	4,510	4,729	(4.6)	2,167	2,343	(7.5)
Net operating income	17,977	17,895	0.5	8,884	9,093	(2.3)
Operating expenses ⁽³⁾	(8,992)	(7,635)	17.8	(4,248)	(4,744)	(10.5)
Underlying profit	8,985	10,260	(12.4)	4,636	4,349	6.6
Credit impairment charge	(779)	(810)	(3.8)	(406)	(373)	8.8
Cash earnings before tax and distributions	8,206	9,450	(13.2)	4,230	3,976	6.4
Income tax expense	(2,404)	(2,710)	(11.3)	(1,236)	(1,168)	5.8
Cash earnings before distributions	5,802	6,740	(13.9)	2,994	2,808	6.6
Distributions	(100)	(98)	2.0	(51)	(49)	4.1
Cash earnings	5,702	6,642	(14.2)	2,943	2,759	6.7
<i>Non-cash earnings items (after tax):</i>						
Distributions	100	98	2.0	51	49	4.1
Fair value and hedge ineffectiveness	182	(500)	large	101	81	24.7
Amortisation of acquired intangible assets	(30)	(62)	(51.6)	(15)	(15)	-
MLC Wealth divestment transaction costs	(12)	-	large	(12)	-	large
Net profit from continuing operations	5,942	6,178	(3.8)	3,068	2,874	6.8
Net loss after tax from discontinued operations ⁽⁴⁾	(388)	(893)	(56.6)	(97)	(291)	(66.7)
Net profit attributable to owners of NAB	5,554	5,285	5.1	2,971	2,583	15.0

Restructuring-related costs and customer-related remediation

Net profit attributable to owners of NAB includes the following:

- restructuring-related costs of \$755 million (before tax) in the March 2018 half year
- customer-related remediation of \$435 million (before tax) in the September 2018 half year.

Customer-related remediation relates to several matters including:

- 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
- costs for implementing remediation processes
- other costs associated with regulatory compliance matters.

Within cash earnings, customer-related remediation reduced other operating income by \$249 million and increased operating expenses by \$111 million.

Customer-related remediation reduced cash earnings by \$261 million (after tax) and increased the net loss from discontinued operations by \$53 million (after tax).

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

⁽²⁾ Includes customer-related remediation. Refer to Note 3 Other income for further information.

⁽³⁾ Includes restructuring-related costs and customer-related remediation. Refer to Note 4 Operating expenses for further information.

⁽⁴⁾ Includes customer-related remediation. Refer to Note 14 Discontinued operations for further information.

Non-cash Earnings Items

Distributions

Distributions relating to hybrid equity instruments are treated as an expense for cash earnings purposes and as a reduction in equity (dividend) for statutory reporting purposes. The distributions on other equity instruments are set out in Section 5, *Note 6 Dividends and distributions*. The effect of this in the September 2018 full year is to reduce cash earnings by \$100 million.

Fair Value and Hedge Ineffectiveness

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

In the September 2018 full year, there was an increase in statutory profit of \$240 million (\$182 million after tax) from fair value and hedge ineffectiveness. This was largely due to the mark-to-market gain from derivatives used to hedge the Group's long-term funding issuances and liquid assets. The adoption of the hedge accounting requirements in AASB 9 *Financial Instruments* from 1 April 2018 has reduced the Group's volatility of statutory profit due to movements in interest rates, foreign exchange rates and cross currency spreads compared to prior periods.

Amortisation of Acquired Intangible Assets

The amortisation of acquired intangibles represents the amortisation of intangible assets arising from the acquisition of controlled entities and associates such as management agreements and contracts in force. In the September 2018 full year, there was a decrease in statutory profit of \$35 million (\$30 million after tax) due to the amortisation of acquired intangible assets.

MLC Wealth Divestment Transaction Costs

MLC Wealth divestment transaction costs represent costs incurred in preparation for the divestment of the Group's Advice, Superannuation & Investment Platforms and Asset Management businesses announced on 3 May 2018, which is expected to occur in the 2019 calendar year. In the September 2018 full year, there was a decrease in statutory profit of \$17 million (\$12 million after tax) due to MLC Wealth divestment transaction costs.

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

	Statutory net profit from continuing operations	Wealth adj. ⁽¹⁾	Distri- butions	Fair value and hedge ineffec.	Amortisation of acquired intangible assets	MLC Wealth divestment transaction costs	Cash earnings
Year ended 30 September 2018	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	13,505	(42)	-	4	-	-	13,467
Other operating income ⁽²⁾	5,596	(843)	-	(256)	13	-	4,510
Net operating income	19,101	(885)	-	(252)	13	-	17,977
Operating expenses ⁽³⁾	(9,910)	879	-	-	22	17	(8,992)
Profit / (loss) before credit impairment charge	9,191	(6)	-	(252)	35	17	8,985
Credit impairment (charge) / write-back	(791)	-	-	12	-	-	(779)
Profit / (loss) before tax	8,400	(6)	-	(240)	35	17	8,206
Income tax (expense) / benefit	(2,455)	3	-	58	(5)	(5)	(2,404)
Net profit on continuing operations before distributions and non-controlling interest	5,945	(3)	-	(182)	30	12	5,802
Net profit / (loss) attributable to non-controlling interest in controlled entities	(3)	3	-	-	-	-	-
Distributions	-	-	(100)	-	-	-	(100)
Net profit attributable to owners of NAB from continuing operations	5,942	-	(100)	(182)	30	12	5,702

⁽¹⁾ In the Wealth cash earnings view, volume related expenses are reclassified from operating expenses and net interest income to other operating income.⁽²⁾ Includes customer-related remediation. Refer to Note 3 Other income for further information.⁽³⁾ Includes restructuring-related costs and customer-related remediation. Refer to Note 4 Operating expenses for further information.

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

Year ended 30 September 2017	Statutory net profit from continuing operations	Wealth adj. ⁽¹⁾	Distri- butions	Fair value and hedge ineffec.	Amortisation of acquired intangible assets	Cash earnings
	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	13,182	(37)	-	21	-	13,166
Other operating income	4,842	(817)	-	692	12	4,729
Net operating income	18,024	(854)	-	713	12	17,895
Operating expenses	(8,539)	849	-	-	55	(7,635)
Profit / (loss) before credit impairment charge	9,485	(5)	-	713	67	10,260
Credit impairment (charge) / write-back	(824)	-	-	14	-	(810)
Profit / (loss) before tax	8,661	(5)	-	727	67	9,450
Income tax (expense) / benefit	(2,480)	2	-	(227)	(5)	(2,710)
Net profit on continuing operations before distributions and non-controlling interest	6,181	(3)	-	500	62	6,740
Net profit / (loss) attributable to non-controlling interest in controlled entities	(3)	3	-	-	-	-
Distributions	-	-	(98)	-	-	(98)
Net profit attributable to owners of NAB from continuing operations	6,178	-	(98)	500	62	6,642

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

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

Half Year ended 30 September 2018	Statutory net profit from continuing operations	Wealth adj. ⁽¹⁾	Distri- butions	Fair value and hedge ineffec.	Amortisation of acquired intangible assets	MLC Wealth divestment transaction costs	Cash earnings
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	6,739	(23)	-	1	-	-	6,717
Other operating income ⁽²⁾	2,738	(430)	-	(147)	6	-	2,167
Net operating income	9,477	(453)	-	(146)	6	-	8,884
Operating expenses ⁽³⁾	(4,726)	449	-	-	12	17	(4,248)
Profit / (loss) before credit impairment charge	4,751	(4)	-	(146)	18	17	4,636
Credit impairment (charge) / write-back	(409)	-	-	3	-	-	(406)
Profit / (loss) before tax	4,342	(4)	-	(143)	18	17	4,230
Income tax (expense) / benefit	(1,273)	3	-	42	(3)	(5)	(1,236)
Net profit on continuing operations before distributions and non-controlling interest	3,069	(1)	-	(101)	15	12	2,994
Net profit / (loss) attributable to non-controlling interest in controlled entities	(1)	1	-	-	-	-	-
Distributions	-	-	(51)	-	-	-	(51)
Net profit attributable to owners of NAB from continuing operations	3,068	-	(51)	(101)	15	12	2,943

⁽¹⁾ In the Wealth cash earnings view, volume related expenses are reclassified from operating expenses and net interest income to other operating income.⁽²⁾ Includes customer-related remediation. Refer to Note 3 Other income for further information.⁽³⁾ Includes customer-related remediation. Refer to Note 4 Operating expenses for further information.

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

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

⁽¹⁾ In the Wealth cash earnings view, volume related expenses are reclassified from operating expenses and net interest income to other operating income.⁽²⁾ Includes restructuring-related costs. Refer to Note 4 Operating expenses for further information.

Section 2

Highlights

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Group Performance Results ⁽¹⁾

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Net interest income	13,467	13,166	2.3	6,717	6,750	(0.5)
Other operating income ⁽²⁾	4,759	4,729	0.6	2,416	2,343	3.1
Customer-related remediation ⁽³⁾	(249)	-	large	(249)	-	large
Net operating income	17,977	17,895	0.5	8,884	9,093	(2.3)
Operating expenses ⁽⁴⁾	(8,126)	(7,635)	6.4	(4,137)	(3,989)	3.7
Restructuring-related costs ⁽⁵⁾	(755)	-	large	-	(755)	large
Customer-related remediation ⁽⁵⁾	(111)	-	large	(111)	-	large
Underlying profit	8,985	10,260	(12.4)	4,636	4,349	6.6
Credit impairment charge	(779)	(810)	(3.8)	(406)	(373)	8.8
Cash earnings before tax and distributions	8,206	9,450	(13.2)	4,230	3,976	6.4
Income tax expense	(2,404)	(2,710)	(11.3)	(1,236)	(1,168)	5.8
Cash earnings before distributions	5,802	6,740	(13.9)	2,994	2,808	6.6
Distributions	(100)	(98)	2.0	(51)	(49)	4.1
Cash earnings	5,702	6,642	(14.2)	2,943	2,759	6.7
Cash earnings (excluding restructuring-related costs and customer-related remediation)	6,493	6,642	(2.2)	3,204	3,289	(2.6)
<i>Non-cash earnings items (after tax):</i>						
Distributions	100	98	2.0	51	49	4.1
Fair value and hedge ineffectiveness	182	(500)	large	101	81	24.7
Amortisation of acquired intangible assets	(30)	(62)	(51.6)	(15)	(15)	-
MLC Wealth divestment transaction costs	(12)	-	large	(12)	-	large
Net profit from continuing operations	5,942	6,178	(3.8)	3,068	2,874	6.8
Net loss after tax from discontinued operations	(388)	(893)	(56.6)	(97)	(291)	(66.7)
Net profit attributable to owners of NAB	5,554	5,285	5.1	2,971	2,583	15.0
Represented by:						
Business and Private Banking	2,911	2,841	2.5	1,429	1,482	(3.6)
Consumer Banking and Wealth	1,539	1,633	(5.8)	735	804	(8.6)
Corporate and Institutional Banking	1,541	1,535	0.4	763	778	(1.9)
New Zealand Banking	922	882	4.5	470	452	4.0
Corporate Functions and Other ⁽⁴⁾	(420)	(249)	(68.7)	(193)	(227)	15.0
Restructuring-related costs	(530)	-	large	-	(530)	large
Customer-related remediation	(261)	-	large	(261)	-	large
Cash earnings	5,702	6,642	(14.2)	2,943	2,759	6.7

⁽¹⁾ Information is presented on a continuing operations basis.⁽²⁾ Excluding customer-related remediation.⁽³⁾ Refer to Note 3 Other income for further information.⁽⁴⁾ Excluding restructuring-related costs and customer-related remediation.⁽⁵⁾ Refer to Note 4 Operating expenses for further information.

Shareholder Summary

	Year to			Half Year to		
	Sep 18	Sep 17	Sep 18 v Sep 17	Sep 18	Mar 18	Sep 18 v Mar 18
Group						
Dividend per share (cents)	198	198	-	99	99	-
Dividend payout ratio	94.1%	79.4%	large	91.5%	96.9%	(540 bps)
Statutory earnings per share (cents) - basic	201.3	194.7	6.6	107.3	93.9	13.4
Statutory earnings per share (cents) - diluted	194.0	189.1	4.9	103.4	91.1	12.3
Statutory earnings per share from continuing operations (cents) - basic	215.6	228.2	(12.6)	110.9	104.7	6.2
Statutory earnings per share from continuing operations (cents) - diluted	207.2	220.1	(12.9)	106.6	101.0	5.6
Cash earnings per share (cents) - basic	210.4	249.3	(38.9)	108.2	102.2	6.0
Cash earnings per share (cents) - diluted	202.4	239.7	(37.3)	104.1	98.8	5.3
Statutory return on equity	11.2%	10.9%	30 bps	11.9%	10.5%	140 bps
Cash return on equity (ROE)	11.7%	14.0%	(230 bps)	12.0%	11.4%	60 bps
Group (excluding restructuring-related costs and customer-related remediation)						
Dividend payout ratio	82.6%	79.4%	320 bps	84.0%	81.2%	280 bps
Statutory earnings per share (cents) - basic	230.5	194.7	35.8	116.9	113.5	3.4
Statutory earnings per share (cents) - diluted	220.9	189.1	31.8	112.2	109.2	3.0
Statutory earnings per share from continuing operations (cents) - basic	244.8	228.2	16.6	120.5	124.3	(3.8)
Statutory earnings per share from continuing operations (cents) - diluted	234.1	220.1	14.0	115.5	119.2	(3.7)
Cash earnings per share (cents) - basic	239.6	249.3	(9.7)	117.8	121.9	(4.1)
Cash earnings per share (cents) - diluted	229.3	239.7	(10.4)	113.0	117.0	(4.0)
Statutory return on equity	12.8%	10.9%	190 bps	13.0%	12.6%	40 bps
Cash return on equity (ROE)	13.3%	14.0%	(70 bps)	13.1%	13.6%	(50 bps)

Key Performance Indicators

	Year to			Half Year to		
	Sep 18	Sep 17	Sep 18 v Sep 17	Sep 18	Mar 18	Sep 18 v Mar 18
Group ⁽¹⁾						
Cash earnings on average assets	0.71%	0.83%	(12 bps)	0.73%	0.69%	4 bps
Cash earnings on average risk-weighted assets	1.48%	1.73%	(25 bps)	1.50%	1.45%	5 bps
Cash earnings per average FTE (\$'000)	169	197	(14.2%)	175	163	7.0%
Jaws	(17.3%)	0.1%	large	8.2%	(22.5%)	large
Cost to income (CTI) ratio	50.0%	42.7%	730 bps	47.8%	52.2%	(440 bps)
Net interest margin	1.85%	1.85%	-	1.84%	1.87%	(3 bps)
Group (excluding restructuring-related costs and customer-related remediation)						
Cash earnings on average assets	0.81%	0.83%	(2 bps)	0.79%	0.82%	(3 bps)
Cash earnings on average risk-weighted assets	1.68%	1.73%	(5 bps)	1.63%	1.73%	(10 bps)
Cash earnings per average FTE (\$'000)	192	197	(2.2%)	190	195	(2.3%)
Jaws	(4.6%)	0.1%	(470 bps)	(3.3%)	(2.9%)	(40 bps)
Cost to income (CTI) ratio	44.6%	42.7%	190 bps	45.3%	43.9%	140 bps
Capital						
Common Equity Tier 1 ratio	10.20%	10.06%	14 bps	10.20%	10.21%	(1 bp)
Tier 1 ratio	12.38%	12.41%	(3 bps)	12.38%	12.40%	(2 bps)
Total capital ratio	14.12%	14.58%	(46 bps)	14.12%	14.43%	(31 bps)
Risk-weighted assets (\$bn)	389.7	382.1	2.0%	389.7	387.4	0.6%
Volumes (\$bn)						
Gross loans and acceptances ⁽²⁾	585.6	565.1	3.6%	585.6	571.2	2.5%
Average interest earning assets	726.7	711.3	2.2%	728.2	725.1	0.4%
Total average assets	807.0	798.8	1.0%	806.8	807.3	-
Total customer deposits	409.0	407.6	0.3%	409.0	408.4	0.1%
Asset quality						
90+ days past due and gross impaired assets to gross loans and acceptances	0.71%	0.70%	1 bp	0.71%	0.71%	-
Collective provision to credit risk-weighted assets	0.92%	0.86%	6 bps	0.92%	0.89%	3 bps
Specific provision to gross impaired assets ⁽³⁾	44.4%	45.5%	(110 bps)	44.4%	46.3%	(190 bps)
Other						
Funds under management and administration (FUM/A) (spot) (\$bn) ⁽⁴⁾	144.7	133.8	8.1%	144.7	139.5	3.7%
Assets under management (AUM) (spot) (\$bn) ⁽⁴⁾	206.7	195.3	5.9%	206.7	199.3	3.7%
Full-time equivalent employees (FTE) (spot)	33,283	33,422	(0.4%)	33,283	33,944	(1.9%)
Full-time equivalent employees (FTE) (average)	33,747	33,746	-	33,618	33,904	(0.8%)

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

⁽²⁾ Including loans and advances at fair value.

⁽³⁾ Ratio excludes \$2 million (NZ\$3 million), (March 2018: \$76 million (NZ\$81 million), September 2017: \$205 million (NZ\$222 million)) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

⁽⁴⁾ FUM/A and AUM are presented in two separate disclosures that represent all managed funds and assets from which the Group derives revenue. Certain items will be represented in both FUM/A and AUM meaning the two should not be summed.

Divisional Key Performance Indicators

	Year to			Half Year to		
	Sep 18	Sep 17	Sep 18 v Sep 17	Sep 18	Mar 18	Sep 18 v Mar 18
Business and Private Banking						
Net operating income (\$m)	6,607	6,319	4.6%	3,319	3,288	0.9%
Cash earnings (\$m)	2,911	2,841	2.5%	1,429	1,482	(3.6%)
Cash earnings on average assets	1.49%	1.49%	-	1.44%	1.53%	(9 bps)
Cash earnings on average risk-weighted assets	2.55%	2.53%	2 bps	2.46%	2.64%	(18 bps)
Net interest margin	2.95%	2.88%	7 bps	2.93%	2.97%	(4 bps)
Cost to income ratio	33.8%	33.0%	80 bps	34.3%	33.2%	110 bps
Consumer Banking and Wealth						
Net operating income (\$m)	5,505	5,481	0.4%	2,721	2,784	(2.3%)
Cash earnings (\$m)	1,539	1,633	(5.8%)	735	804	(8.6%)
Cash earnings on average assets	0.70%	0.79%	(9 bps)	0.66%	0.74%	(8 bps)
Cash earnings on average risk-weighted assets (Consumer Banking)	1.69%	1.98%	(28 bps)	1.62%	1.78%	(16 bps)
Net interest margin (Consumer Banking)	2.00%	2.07%	(7 bps)	1.94%	2.06%	(12 bps)
Cost to income ratio (Consumer Banking)	53.1%	50.4%	270 bps	54.0%	52.3%	170 bps
Investment income to average FUM/A (bps) (Wealth)	58	62	(4 bps)	56	59	(3 bps)
Investment income to average AUM (bps) (Wealth)	13	16	(3 bps)	13	14	(1 bp)
Cost to income ratio (Wealth)	65.3%	64.7%	60 bps	67.7%	63.0%	470 bps
Corporate and Institutional Banking						
Net operating income (\$m)	3,333	3,340	(0.2%)	1,650	1,683	(2.0%)
Cash earnings (\$m)	1,541	1,535	0.4%	763	778	(1.9%)
Cash earnings on average assets	0.58%	0.55%	3 bps	0.58%	0.58%	-
Cash earnings on average risk-weighted assets	1.34%	1.30%	4 bps	1.32%	1.36%	(4 bps)
Net interest margin	0.79%	0.83%	(4 bps)	0.79%	0.79%	-
Net interest margin (ex markets)	1.67%	1.56%	11 bps	1.69%	1.64%	5 bps
Cost to income ratio	38.9%	37.0%	190 bps	40.0%	37.8%	220 bps
New Zealand Banking						
Net operating income (NZ\$m)	2,414	2,257	7.0%	1,222	1,192	2.5%
Cash earnings (NZ\$m)	1,004	941	6.7%	510	494	3.2%
Cash earnings on average assets	1.19%	1.18%	1 bp	1.20%	1.19%	1 bp
Cash earnings on average risk-weighted assets	1.70%	1.63%	7 bps	1.69%	1.71%	(2 bps)
Net interest margin	2.27%	2.18%	9 bps	2.29%	2.24%	5 bps
Cost to income ratio	39.2%	39.1%	10 bps	39.4%	39.0%	40 bps

Group Performance and Strategic Highlights

Andrew Thorburn

Group Performance Summary

Net profit attributable to owners of NAB (statutory net profit) for the September 2018 full year was \$5,554 million, an increase of \$269 million or 5.1% compared to the September 2017 full year.

Excluding the impact of discontinued operations, net profit attributable to owners of NAB (statutory net profit) decreased by \$236 million or 3.8% compared to the September 2017 full year. Discontinued operations reflect 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 customer-related remediation of \$53 million after tax.

Net interest income increased by \$301 million or 2.3% compared to the September 2017 full year. Excluding a decrease of \$246 million which was offset by movements in economic hedges in other operating income, the underlying increase of \$547 million was driven by growth in housing and business lending volumes, combined with an increased net interest margin.

Other operating income decreased by \$219 million or 4.6% compared to the September 2017 full year. Excluding customer-related remediation of \$249 million and an increase of \$246 million offset by movements in economic hedges in net interest income, the decrease of \$216 million was largely driven by lower trading income in Markets, reduced NAB risk management income in Treasury and lower income due to asset sales in the prior period. This was partially offset by higher sales of customer risk management products and increased Corporate Finance fees.

Operating expenses increased by \$1,357 million or 17.8% compared to the September 2017 full year. Excluding restructuring-related costs of \$755 million and customer-related remediation of \$111 million, the increase of \$491 million or 6.4% was driven by accelerated investment in technology and associated depreciation and amortisation charges, uplifting the compliance and control environment, the impact of annual salary increases, and increased marketing. This was partially offset by productivity benefits including workforce restructuring associated with simplifying the Group's operations and reduction in third party spend.

Credit impairment charge decreased by \$31 million or 3.8% compared to the September 2017 full year. This was 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.

Fair value and hedge ineffectiveness improved \$682 million compared to the September 2017 full year mainly due to favourable movements in interest rates and foreign exchange rates and due to new hedge accounting requirements adopted under AASB 9 *Financial Instruments*, which reduced the Group's volatility of statutory profit due to fair value movements on derivatives held for risk management purposes in the second half of the 2018 full year.

The final dividend for September 2018 is 99 cents per share, consistent with the interim dividend for the March 2018 half year. This represents a dividend payout ratio of 94.1% for the September 2018 full year on a cash earnings basis.

The dividend payment is 100% franked and will be paid on 14 December 2018. Shares will be quoted ex-dividend on 8 November 2018.

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

⁽¹⁾ Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter Systems 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.

Group Performance and Strategic Highlights (continued)

Strategic Highlights (continued)

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⁽¹⁾ 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 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⁽²⁾ 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⁽³⁾ 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⁽⁴⁾.

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.

⁽¹⁾ Simple business transaction account customers refers to sole traders and private business customers.

⁽²⁾ 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.

⁽³⁾ IJGlobal League tables (2018).

⁽⁴⁾ Notable expenses includes significant customer-related remediation.

Group Performance and Strategic Highlights (continued)

Strategic Highlights (continued)

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 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 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 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 APRA's '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%

⁽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.

Group Performance and Strategic Highlights (continued)

Strategic Highlights (continued)

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 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.

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Section 3

Review of Group Operations and Results

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Review of Group Operations and Results ⁽¹⁾

Financial Analysis

September 2018 v September 2017

Cash earnings decreased by \$940 million or 14.2% reflecting the impact of restructuring-related costs of \$530 million and customer-related remediation of \$261 million. Excluding these costs, cash earnings decreased by \$149 million or 2.2%.

Cash earnings on average risk-weighted assets decreased by 25 basis points reflecting the impact of restructuring-related costs and customer-related remediation. Excluding these costs, cash earnings on average risk-weighted assets decreased by 5 basis points mainly due to lower cash earnings.

Net interest income increased by \$301 million or 2.3%, including a decrease of \$246 million which was offset by movements in economic hedges in other operating income. Excluding this movement, the underlying increase of \$547 million or 4.2% was driven by growth in both housing and business lending volumes, combined with the full year impact of prior period repricing activities, lower deposit costs and reduced long term wholesale funding costs. These movements were partially offset by competitive pressures and product mix impacts on 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 operating income decreased by \$219 million or 4.6%, including an increase of \$246 million which was offset by movements in economic hedges in net interest income. Excluding this and customer-related remediation of \$249 million, the underlying decrease of \$216 million or 4.6% was mainly driven by lower trading income in Markets, reduced NAB risk management income in Treasury and lower income due to asset sales in the prior period. This was partially offset by higher sales of customer risk management products and increased Corporate Finance fee income.

Operating expenses increased by \$1,357 million or 17.8%. Excluding restructuring-related costs of \$755 million and customer-related remediation of \$111 million, operating expenses increased \$491 million or 6.4% driven by accelerated investment in technology and associated depreciation and amortisation charges, uplifting the compliance and control environment, the impact of annual salary increases, and increased marketing. This was partially offset by productivity benefits including workforce restructuring associated with simplifying the Group's operations and reduction in third party spend.

The **credit impairment charge** decreased by \$31 million or 3.8% 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.

September 2018 v March 2018

Cash earnings increased by \$184 million or 6.7% reflecting the impact of restructuring-related costs of \$530 million in the March 2018 half year, and customer-related remediation in the September 2018 half year of \$261 million. Excluding these costs, cash earnings decreased by \$85 million or 2.6%.

Cash earnings on average risk-weighted assets increased by 5 basis points reflecting the impact of restructuring-related costs in the March 2018 half year, partially offset by customer-related remediation incurred in the September 2018 half year. Excluding these costs, cash earnings on average risk-weighted assets decreased 10 basis points due to lower cash earnings and an increase in average risk-weighted assets.

Net interest income decreased by \$33 million or 0.5%, including a decrease of \$124 million which was offset by movements in economic hedges in other operating income. Excluding this movement, the underlying increase of \$91 million or 1.3% was driven by growth in both housing and business lending volumes, lower deposit costs and higher NAB risk management income. This was partially offset by competitive pressures, product mix impacts and higher short term wholesale funding costs, all of which impacted the housing lending portfolio.

Other operating income decreased by \$176 million or 7.5%, including an increase of \$124 million which was offset by movements in economic hedges in net interest income. Excluding this movement and \$249 million of customer-related remediation in the September 2018 half year, the underlying decrease of \$51 million or 2.2% was largely due to lower trading income in Markets, reduced NAB risk management income in Treasury and a decrease in sales of customer risk management products.

Operating expenses decreased by \$496 million or 10.5% reflecting the impact of restructuring-related costs of \$755 million in the March 2018 half year, partially offset by customer-related remediation of \$111 million in the September 2018 half year. Excluding these costs, operating expenses increased \$148 million or 3.7% driven by accelerated investment in technology and associated depreciation and amortisation charges, uplifting the compliance and control environment, the impact of annual salary increases, and increased marketing. This was partially offset by productivity benefits including workforce restructuring associated with simplifying the Group's operations and reduction in third party spend.

The **credit impairment charge** increased by \$33 million or 8.8% driven by higher specific credit impairment charges in the retail portfolios, combined with a lower level of collective provision releases in the September 2018 half year, partially offset by mortgage model enhancements to incorporate a more forward looking approach.

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

Net Interest Income ⁽¹⁾

	Year to			Half Year to		
	Sep 18	Sep 17	Sep 18 v Sep 17 %	Sep 18	Mar 18	Sep 18 v Mar 18 %
Net interest income (\$m)	13,467	13,166	2.3	6,717	6,750	(0.5)
Average interest earning assets (\$bn)	726.7	711.3	2.2	728.2	725.1	0.4
Net interest margin (%)	1.85	1.85	-	1.84	1.87	(3 bps)

Net Interest Income - Contribution to Net Movement ⁽¹⁾



⁽¹⁾ Corporate Functions, Treasury & Other includes eliminations. Refer to page 54 for the definition of Corporate Functions.

September 2018 v September 2017

Net interest income increased by \$301 million or 2.3%. This includes a decrease of \$246 million which was offset by movements in economic hedges in other operating income. Excluding this movement, the underlying increase of \$547 million or 4.2% was due to:

- Growth in housing and business lending volumes, reflecting the Group's focus on priority segments in Australia and New Zealand.
- The full year impact of prior period repricing in the housing and business lending portfolios in Australia and improved lending margins in New Zealand.
- Decreased funding and liquidity costs, reflecting lower deposit and long term wholesale funding costs, partially offset by higher short term wholesale funding costs and the full year impact of the bank levy introduced in the final quarter of the 2017 year.

The underlying increase was partially offset by:

- Competitive pressures and product mix impacts affecting housing lending margins.
- Lower earnings on capital driven by a decline in the earnings rate, reflecting the low interest rate environment.

September 2018 v March 2018

Net interest income decreased by \$33 million or 0.5%. This includes a decrease of \$124 million which was offset by movements in economic hedges in other operating income. Excluding this movement, the underlying increase of \$91 million or 1.3% was due to:

- Growth in housing and business lending volumes, reflecting the Group's focus on priority segments in Australia and New Zealand.
- Lower deposit costs driven by both improved margins and a favourable change in product mix.
- Higher Markets and Treasury NAB risk management income.
- Increased earnings on capital driven by higher levels of capital held.

The underlying increase was partially offset by:

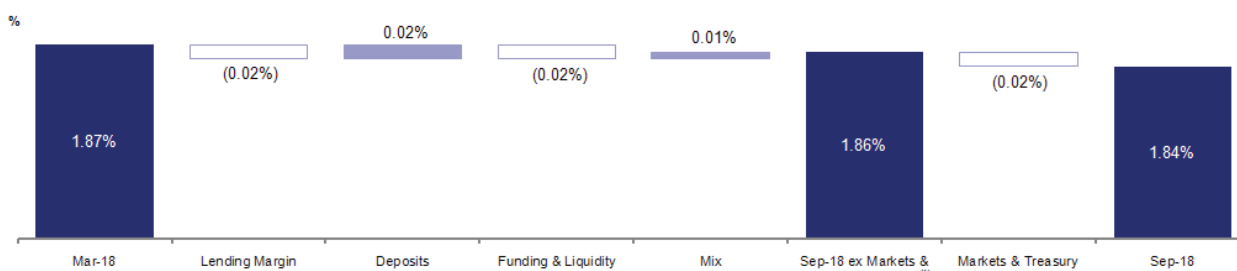
- Competitive pressures and product mix impacts affecting housing lending margins.
- Higher short term wholesale funding costs, largely impacting the Australian housing lending portfolio.

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

Net Interest Margin ⁽¹⁾

	Year to			Half Year to		
	Sep 18 %	Sep 17 %	Sep 18 v Sep 17	Sep 18 %	Mar 18 %	Sep 18 v Mar 18
Group net interest margin	1.85	1.85	-	1.84	1.87	(3 bps)
Business and Private Banking	2.95	2.88	7 bps	2.93	2.97	(4 bps)
Consumer Banking and Wealth	2.00	2.07	(7 bps)	1.94	2.06	(12 bps)
Corporate and Institutional Banking	0.79	0.83	(4 bps)	0.79	0.79	-
New Zealand Banking	2.27	2.18	9 bps	2.29	2.24	5 bps

Group Net Interest Margin Movement



⁽¹⁾ Markets & Treasury includes Liquid assets and Marketable securities.

September 2018 v September 2017

The Group's **net interest margin** was flat due to:

- An increase of 2 basis points in lending margin due to the full year benefit of prior period repricing in both the housing and business lending portfolios, offset by competitive pressures and product mix impacts affecting home lending margins.
- An increase of 2 basis points due to lower funding and liquidity costs driven by both lower deposit costs and lower long term wholesale funding costs, partially offset by higher short term wholesale funding costs and the full year impact of the bank levy introduced in the final quarter of the 2017 year.
- A decrease of 1 basis point due to a lower earnings rate on capital as a result of the low interest rate environment.
- A decrease of 3 basis points in Markets and Treasury due to lower net interest income from Treasury hedging activities offset in other operating income and the full year impact of the bank levy. This decrease was partially offset by stronger NAB risk management income.

September 2018 v March 2018

The Group's **net interest margin** decreased by 3 basis points due to:

- A decrease of 2 basis points in lending margin due to competitive pressures and product mix impacting housing lending margins.
- An increase of 2 basis points due to a reduction in deposit costs in both Australia and New Zealand.
- A decrease of 2 basis points driven by higher short term wholesale funding costs, largely impacting the Australian housing lending portfolio.
- An increase of 1 basis point driven by a favourable change in asset mix across the Group.
- A decrease of 2 basis points in Markets and Treasury mainly due to lower net interest income from Treasury hedging activities offset in other operating income.

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

Other Operating Income ⁽¹⁾

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Fees and commissions	2,185	2,131	2.5	1,097	1,088	0.8
Trading income	1,266	1,240	2.1	656	610	7.5
Other ⁽²⁾	1,308	1,358	(3.7)	663	645	2.8
Customer-related remediation ⁽³⁾	(249)	-	large	(249)	-	large
Total other operating income	4,510	4,729	(4.6)	2,167	2,343	(7.5)

September 2018 v September 2017

Other operating income decreased by \$219 million or 4.6%. Excluding customer-related remediation, other operating income increased by \$30 million or 0.6%.

Fees and commissions increased by \$54 million or 2.5%. The increase was largely driven by higher fee income from Corporate Finance.

Trading income increased by \$26 million or 2.1%. This result includes an increase of \$246 million due to movements in economic hedges, offset in net interest income. The underlying decrease of \$220 million was due to lower trading income in Markets and reduced NAB risk management income in Treasury, partially offset by increased sales of customer risk management products.

Other income decreased by \$50 million or 3.7%. The decrease was mainly due to lower income from the sales of asset management businesses in the prior period.

September 2018 v March 2018

Other operating income decreased by \$176 million or 7.5%. Excluding customer-related remediation, other operating income increased \$73 million or 3.1%.

Fees and commissions increased by \$9 million or 0.8%. The increase was mainly due to higher Consumer Banking and Wealth fee income, partially offset by lower fees in New Zealand Banking.

Trading income increased by \$46 million or 7.5%. This includes an increase of \$124 million due to movements in economic hedges, offset in net interest income. The underlying decrease of \$78 million was due to lower trading income in Markets, reduced NAB risk management income in Treasury and a decrease in sales of customer risk management products.

Other income increased by \$18 million or 2.8%. The increase was mainly due to gains from entity simplification within the Group, partially offset by a lower number of large customer transactions in Corporate Finance in the September 2018 half year.

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

⁽²⁾ Excluding customer-related remediation.

⁽³⁾ Refer to Note 3 Other income for further information.

Markets and Treasury Income

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Net interest income	370	615	(39.8)	157	213	(26.3)
Other operating income	1,368	1,318	3.8	705	663	6.3
Total Markets and Treasury income	1,738	1,933	(10.1)	862	876	(1.6)
Customer risk management ^{(1) (2)}						
FX	492	519	(5.2)	249	243	2.5
Rates	323	238	35.7	149	174	(14.4)
Total Customer risk management income	815	757	7.7	398	417	(4.6)
NAB risk management ^{(3) (4)}						
Markets	460	574	(19.9)	231	229	0.9
Treasury	494	578	(14.5)	241	253	(4.7)
Total NAB risk management income	954	1,152	(17.2)	472	482	(2.1)
Derivative valuation adjustment ⁽⁵⁾	(31)	24	large	(8)	(23)	(65.2)
Total Markets and Treasury income	1,738	1,933	(10.1)	862	876	(1.6)
Avg Markets traded market risk VaR ⁽⁶⁾	8.2	8.3	(1.2)	8.2	8.3	(1.2)

September 2018 v September 2017

Markets and Treasury income decreased by \$195 million or 10.1% due to lower NAB risk management income.

Customer risk management income increased by \$58 million or 7.7%, driven by higher interest rate risk management sales.

NAB risk management income decreased by \$198 million or 17.2% due to:

- Markets risk management income decreased by \$114 million or 19.9%, driven by lower market volatility, full year impact of the bank levy and higher funding costs for the Markets business associated with the Net Stable Funding requirement.
- Treasury risk management income decreased by \$84 million or 14.5% as a result of credit spreads increasing marginally over the year combined with increased regulatory costs.

September 2018 v March 2018

Markets and Treasury income decreased by \$14 million or 1.6%.

Customer risk management income decreased by \$19 million or 4.6%, driven primarily by lower interest rate risk management sales.

NAB risk management income decreased by \$10 million or 2.1% mainly due to lower Treasury income.

⁽¹⁾ Customer risk management comprises other operating income. NAB risk management comprises net interest income and other operating income and is defined as management of interest rate risk in the banking book, wholesale funding and liquidity requirements and trading market risk to support the Group's franchises.

⁽²⁾ Reflects customer risk management in respect of Australian Banking (Consumer Banking and Wealth, Business and Private Banking, and Corporate and Institutional Banking) and New Zealand Banking.

⁽³⁾ Customer risk comprises other operating income. NAB risk management comprises net interest income and other operating income and is defined as management of interest rate risk in the banking book, wholesale funding and liquidity requirements and trading market risk to support the Group's franchises.

⁽⁴⁾ Markets forms part of Corporate and Institutional Banking market revenue. Treasury forms part of Corporate Functions and Other revenue.

⁽⁵⁾ Derivative valuation adjustments include credit valuation adjustments and funding valuation adjustments.

⁽⁶⁾ Average Markets traded market risk VaR excludes the impact of hedging activities related to derivative valuation adjustments.

Operating Expenses ⁽¹⁾

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Personnel expenses	4,847	4,320	12.2	2,199	2,648	(17.0)
Occupancy related expenses	737	681	8.2	353	384	(8.1)
General expenses	3,408	2,634	29.4	1,696	1,712	(0.9)
Total operating expenses	8,992	7,635	17.8	4,248	4,744	(10.5)

Operating Expenses (excluding restructuring-related costs and customer-related remediation) ⁽²⁾

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Personnel expenses	4,420	4,320	2.3	2,199	2,221	(1.0)
Occupancy related expenses	702	681	3.1	353	349	1.1
General expenses	3,004	2,634	14.0	1,585	1,419	11.7
Total operating expenses	8,126	7,635	6.4	4,137	3,989	3.7

September 2018 v September 2017

Operating expenses increased by \$1,357 million or 17.8%. Excluding restructuring-related costs and customer-related remediation, operating expenses increased \$491 million or 6.4%.

Personnel expenses excluding restructuring-related costs increased by \$100 million or 2.3%. The increase was driven by accelerated investment in technology capabilities, uplifting the compliance and control environment, insourcing and the impact of annual salary increases. This was partially offset by productivity savings as a result of workforce restructuring associated with simplifying the Group's operations.

Occupancy related expenses excluding restructuring-related costs increased by \$21 million or 3.1%. The increase was primarily driven by property rental increases.

General expenses excluding restructuring-related costs and customer-related remediation increased by \$370 million or 14.0%. The increase was driven by accelerated investment in technology and associated depreciation and amortisation charges, uplifting the compliance and control environment, and increased legal and marketing costs. This was partially offset by productivity benefits generated through reduction in third party spend and insourcing.

September 2018 v March 2018

Operating expenses decreased by \$496 million or 10.5%. Excluding restructuring-related costs and customer-related remediation, operating expenses increased \$148 million or 3.7%.

Personnel expenses excluding restructuring-related costs decreased by \$22 million or 1.0%. The decrease was driven by productivity benefits, partially offset by accelerated investment in customer and technology capabilities, including uplifting the compliance and control environment and annual salary increases.

Occupancy related expenses excluding restructuring-related costs increased \$4 million or 1.1% primarily driven by property rental increases.

General expenses excluding restructuring-related costs and customer-related remediation increased by \$166 million or 11.7%. The increase was driven by accelerated investment in technology and associated depreciation and amortisation charges, uplifting the compliance and control environment, and increased legal and marketing costs. This was partially offset by productivity benefits generated through reduction in third party spend.

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

⁽²⁾ Refer to Note 4 Operating expenses for further information.

Investment Spend ⁽¹⁾

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Infrastructure	542	448	21.0	278	264	5.3
Compliance and risk	456	352	29.5	267	189	41.3
Customer experience, efficiency and sustainable revenue	521	414	25.8	282	239	18.0
Total investment spend	1,519	1,214	25.1	827	692	19.5

Investment spend is expenditure on projects and initiatives designed to enhance the customer experience, comply with legal and regulatory requirements, and improve capabilities and efficiencies in the Group's business processes. In November 2017, the Group announced an acceleration of its strategy and investment spend profile. Investment spend for the September 2018 full year was \$1,519 million, an increase of \$305 million or 25.1% compared to the September 2017 full year.

September 2018 v September 2017

Investment in **infrastructure** projects increased by \$94 million or 21.0%. The increase is largely driven by ongoing simplification and technology refresh activity, spend on enhanced cyber security capability, strategic customer relationship management and cloud based infrastructure. This was partially offset by reduced spend in relation to the new payments platform.

Investment in **compliance and risk** projects increased by \$104 million or 29.5%. The increase is largely driven by uplifting NAB's capability in relation to the compliance and control environment, Stronger Super reforms and implementation of the Markets in Financial Instruments Directive (MiFID II).

Investment in **customer experience, efficiency and sustainable revenue** projects increased by \$107 million or 25.8%. The increase is largely driven by the Group's ongoing commitment to innovate and enhance digital platforms and simplify the customer experience.

September 2018 v March 2018

Investment in **infrastructure** projects increased by \$14 million or 5.3%. The increase was largely driven by ongoing simplification and technology refresh activity and the rollout of cloud based infrastructure. This was partially offset by reduced spend in relation to the new payments platform.

Investment in **compliance and risk** projects has increased by \$78 million or 41.3%. The increase was largely driven by uplifting NAB's capability in relation to the compliance and control environment.

Investment in **customer experience, efficiency and sustainable revenue** projects increased by \$43 million or 18.0%. The increase was largely driven by the Group's ongoing commitment to innovate and enhance digital platforms and simplify the customer experience.

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

Taxation ⁽¹⁾

	Year to			Half Year to		
	Sep 18	Sep 17	Sep 18 v Sep 17	Sep 18	Mar 18	Sep 18 v Mar 18
Income tax expense (\$m)	2,404	2,710	(11.3%)	1,236	1,168	5.8%
Effective tax rate (%)	29.3	28.7	60 bps	29.2	29.4	(20 bps)

September 2018 v September 2017

Cash earnings income tax expense decreased by \$306 million or 11.3%. The decrease was mainly due to lower cash earnings before tax, driven by the impact of restructuring-related costs and customer-related remediation.

The **cash earnings effective tax rate** of 29.3% increased by 60 basis points. The increase was mainly due to a lower amount of foreign branch income not assessable, a change in the amount of over / under provisions in prior years, and other non-recurring items in both periods.

September 2018 v March 2018

Cash earnings income tax expense increased by \$68 million or 5.8%. The increase was mainly due to higher cash earnings before tax.

The **cash earnings effective tax rate** of 29.2% decreased by 20 basis points. The decrease was due to non-recurring items in both periods.

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

Lending ⁽¹⁾

	As at			Sep 18 v Sep 17 %	Sep 18 v Mar 18 %
	30 Sep 18 \$m	31 Mar 18 \$m	30 Sep 17 \$m		
Housing					
Business and Private Banking	90,793	90,625	90,438	0.4	0.2
Consumer Banking and Wealth	212,157	206,994	202,508	4.8	2.5
Corporate and Institutional Banking	168	174	2,171	(92.3)	(3.4)
New Zealand Banking	36,422	35,965	34,417	5.8	1.3
Total housing	339,540	333,758	329,534	3.0	1.7
Non-housing					
Business and Private Banking	108,724	105,775	103,288	5.3	2.8
Consumer Banking and Wealth	6,643	6,893	6,875	(3.4)	(3.6)
Corporate and Institutional Banking	91,215	85,277	85,852	6.2	7.0
New Zealand Banking	39,208	39,173	38,350	2.2	0.1
Corporate Functions and Other	260	364	1,247	(79.1)	(28.6)
Total non-housing	246,050	237,482	235,612	4.4	3.6
Gross loans and advances including acceptances	585,590	571,240	565,146	3.6	2.5

September 2018 v September 2017

Lending (gross loans and advances including acceptances) increased by \$20.4 billion or 3.6% due to growth in housing and business lending.

Housing lending increased by \$10.0 billion or 3.0% mainly due to:

- An increase of \$9.6 billion or 4.8% in Consumer Banking largely due to growth in the broker channel.
- An increase of \$2.0 billion or 5.8% in New Zealand Banking reflecting growth in broker and proprietary channels.
- A decrease of \$2.0 billion or 92.3% in Corporate and Institutional Banking due to the sale of the Private Wealth business in Asia.

Non-housing lending increased by \$10.4 billion or 4.4% mainly due to:

- An increase of \$5.4 billion or 5.3% in Business and Private Banking, driven by leveraging its deep industry specialisations and strong market position across key geographic areas.
- An increase of \$5.4 billion or 6.2% in Corporate and Institutional Banking reflecting growth across key segments and depreciation of the Australian dollar, partially offset by returns focussed portfolio management.
- An increase of \$0.9 billion or 2.2% in New Zealand Banking reflecting growth across key segments.

September 2018 v March 2018

Lending (gross loans and advances including acceptances) increased by \$14.4 billion or 2.5% due to growth in housing and business lending.

Housing lending increased by \$5.8 billion or 1.7% mainly due to:

- An increase of \$5.2 billion or 2.5% in Consumer Banking largely due to growth in the broker channel.
- An increase of \$0.5 billion or 1.3% in New Zealand Banking reflecting growth in both proprietary and broker channels, partially offset by a depreciation in the New Zealand dollar.

Non-housing lending increased by \$8.6 billion or 3.6% mainly due to:

- An increase of \$2.9 billion or 2.8% in Business and Private Banking driven by leveraging its deep industry specialisations and strong market position across key geographical areas.
- An increase of \$5.9 billion or 7.0% in Corporate and Institutional Banking reflecting growth across key segments, partially offset by returns focussed portfolio management.

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

Goodwill and Other Intangible Assets ⁽¹⁾

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

Intangible assets are comprised of capitalised software and other intangible assets. Intangible assets increased by \$185 million or 6.8% compared to the September 2017 full year. This increase was largely attributable to continued investment in software, partially offset by \$146 million restructuring-related software write-offs and higher amortisation as software has been deployed.

The Group continues to invest in software to support its customer focussed strategic objectives (refer to page 26). Major investments currently being undertaken are:

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

The movement in capitalised software is as follows:

	Year ended		Half Year ended	
	Sep 18	Sep 17	Sep 18	Mar 18
	\$m	\$m	\$m	\$m
Balance at beginning of period	2,706	2,344	2,713	2,706
Additions	819	766	469	350
Disposals and write-offs	(172)	(20)	(24)	(148)
Amortisation	(457)	(377)	(259)	(198)
Foreign currency translation adjustments	(1)	(7)	(4)	3
Capitalised software	2,895	2,706	2,895	2,713

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

Customer Deposits ⁽¹⁾

	As at			Sep 18 v Sep 17 %	Sep 18 v Mar 18 %
	30 Sep 18 \$m	31 Mar 18 \$m	30 Sep 17 \$m		
Business and Private Banking	132,487	132,698	129,979	1.9	(0.2)
Consumer Banking and Wealth	120,640	118,475	116,318	3.7	1.8
Corporate and Institutional Banking	97,981	89,617	96,966	1.0	9.3
New Zealand Banking	53,542	54,807	50,685	5.6	(2.3)
Corporate Functions and Other	4,324	12,807	13,637	(68.3)	(66.2)
Total customer deposits	408,974	408,404	407,585	0.3	0.1

September 2018 v September 2017

Customer deposits increased by \$1.4 billion or 0.3%. This is as a result of the Group continuing to execute on its funding strategy, which includes growth in stable and higher quality customer deposits. This growth was due to:

- An increase of \$2.5 billion or 1.9% in Business and Private Banking, driven by continued growth of \$2.2 billion in non-interest bearing business transactional accounts combined with an increase in term deposits of \$0.3 billion.
- An increase of \$4.3 billion or 3.7% in Consumer Banking and Wealth from growth in at call deposits of \$3.1 billion due to competitive pricing combined with growth in home loan offset accounts of \$0.9 billion.
- An increase of \$1.0 billion or 1.0% in Corporate and Institutional Banking, driven by growth in term deposits of \$3.4 billion from Financial Institutions combined with growth in domestic business at call deposits of \$1.7 billion. This was partially offset by the impact of the sale of the Private Wealth business in Asia of \$3.9 billion.
- An increase of \$2.9 billion or 5.6% in New Zealand Banking mainly due to growth in term deposits of \$1.2 billion, on-demand short-term deposits of \$1.0 billion and non-interest bearing deposits of \$0.6 billion as a result of strong New Zealand system growth.
- A decrease of \$9.3 billion or 68.3% in Corporate Functions and Other due to a decrease in on-demand and term deposits in Treasury.

September 2018 v March 2018

Customer deposits increased by \$0.6 billion or 0.1% due to:

- A decrease of \$0.2 billion or 0.2% in Business and Private Banking, driven by decline in on-demand business savings of \$1.8 billion, partially offset by continued growth of \$1.0 billion in non-interest bearing business transaction accounts and an increase in term deposits of \$0.6 billion.
- An increase of \$2.2 billion or 1.8% in Consumer Banking and Wealth from growth in at call deposits of \$1.7 billion due to competitive pricing and transaction accounts of \$0.4 billion.
- An increase of \$8.4 billion or 9.3% in Corporate and Institutional Banking, driven by growth in term deposits of \$5.3 billion and domestic business at call deposits of \$3.1 billion from Financial Institutions.
- A decrease of \$1.3 billion or 2.3% in New Zealand Banking mainly due to the depreciation of the New Zealand dollar of \$1.6 billion, partially offset by an increase in demand deposits of \$0.3 billion due to system growth.
- A decrease of \$8.5 billion or 66.2% in Corporate Functions and Other due to a decrease in on-demand and term deposits in Treasury.

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

Asset Quality ⁽¹⁾

Credit Impairment Charge

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Specific credit impairment charge - new and increased	753	1,049	(28.2)	387	366	5.7
Specific credit impairment charge - write-backs	(193)	(242)	(20.2)	(99)	(94)	5.3
Specific credit impairment charge - recoveries	(73)	(111)	(34.2)	(28)	(45)	(37.8)
Specific credit impairment charge	487	696	(30.0)	260	227	14.5
Collective credit impairment charge	292	114	large	146	146	-
Total credit impairment charge	779	810	(3.8)	406	373	8.8

	Year to			Half Year to		
	Sep 18	Sep 17	Sep 18 v Sep 17	Sep 18	Mar 18	Sep 18 v Mar 18
Credit impairment charge to gross loans and acceptances (annualised)	0.13%	0.14%	(1 bp)	0.14%	0.13%	1 bp
Net write-offs to gross loans and acceptances (annualised) ⁽²⁾	0.09%	0.13%	(4 bps)	0.10%	0.07%	3 bps

September 2018 v September 2017

Credit impairment charge was \$779 million, a decrease of \$31 million or 3.8%.

Specific credit impairment charge of \$487 million, a decrease of \$209 million, driven by:

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

The September 2018 full year **collective credit impairment charge** was \$292 million, an increase of \$178 million, driven by:

- Collective provision charges for mortgage model enhancements to incorporate a more forward looking approach.
- Higher collective provision releases in the September 2017 full year, due to the impairment of a small number of larger exposures.

This was partially offset by a lower level of collective provision forward looking adjustments (FLAs) raised for targeted sectors.

The Group ratio of **net write-offs to gross loans and acceptances** decreased by 4 basis points to 0.09%, as the higher level of Corporate and Institutional Banking write-offs in the September 2017 full year were not repeated.

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

September 2018 v March 2018

Credit impairment charge was \$406 million, an increase of \$33 million or 8.8%.

Specific credit impairment charge of \$260 million increased by \$33 million, mainly driven by higher charges in the retail portfolios due to seasonality.

The September 2018 half year **collective credit impairment charge** was stable at \$146 million, driven by mortgage model enhancements to incorporate a more forward looking approach during the September 2018 half year, offset by a lower level of collective provision releases relating to re-ratings of a small number of larger exposures.

The Group ratio of **net write-offs to gross loans and acceptances** increased by 3 basis points to 0.10%. This was largely due to a modest increase in the level of write-offs from low levels.

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

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

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

Asset Quality (continued) ⁽¹⁾

Provision for Credit Impairment

	As at			Sep 18 v Sep 17 %	Sep 18 v Mar 18 %
	30 Sep 18 \$m	31 Mar 18 \$m	30 Sep 17 \$m		
Collective provision on loans at amortised cost	2,840	2,699	2,535	12.0	5.2
Collective provision on loans at fair value	80	92	114	(29.8)	(13.0)
Collective provision on derivatives at fair value	134	147	149	(10.1)	(8.8)
Total collective provision for credit impairment	3,054	2,938	2,798	9.1	3.9
Total specific provision for credit impairment ⁽²⁾	675	710	691	(2.3)	(4.9)
Total provision for credit impairment	3,729	3,648	3,489	6.9	2.2

	As at			Sep 18 v Sep 17	Sep 18 v Mar 18
	30 Sep 18	31 Mar 18	30 Sep 17		
Total provision to gross loans and acceptances	0.64%	0.64%	0.62%	2 bps	-
Total provisions to net write-offs (annualised) ^{(3) (4)}	746%	862%	473%	large	large
Specific provision to gross impaired assets ⁽⁵⁾	44.4%	46.3%	45.5%	(110 bps)	(190 bps)
Collective provision to credit risk-weighted assets	0.92%	0.89%	0.86%	6 bps	3 bps
Collective provision to gross loans and acceptances	0.52%	0.51%	0.50%	2 bps	1 bp

September 2018 v September 2017

Provisions for credit impairment increased by \$240 million or 6.9% to \$3,729 million.

Specific provisions decreased by \$16 million to \$675 million due to a lower level of newly impaired assets.

Collective provisions increased by \$256 million to \$3,054 million. This was mainly due to:

- Collective provision FLAs raised for targeted sectors including the retail trade, agriculture and mortgage portfolios.
- Collective provision charges for mortgage model enhancements to incorporate a more forward looking approach.

The **collective provision to credit risk-weighted assets** ratio increased by 6 basis points to 0.92% over the September 2018 full year, predominantly due to collective provision increases.

September 2018 v March 2018

Provisions for credit impairment increased by \$81 million or 2.2% to \$3,729 million.

Specific provisions decreased by \$35 million to \$675 million due to a lower level of newly impaired assets and an increased level of write-offs.

Collective provisions increased by \$116 million to \$3,054 million. This was mainly due to:

- Collective provision FLAs raised for targeted sectors including the agriculture and mortgage portfolios.
- Collective provision charges for mortgage model enhancements to incorporate a more forward looking approach.

The **collective provision to credit risk-weighted assets** ratio increased by 3 basis points to 0.92% over the September 2018 half year due to collective provision increases.

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

⁽²⁾ Includes \$2 million (March 2018: \$1 million; September 2017: \$2 million) of specific provision on loans at fair value.

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

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

⁽⁵⁾ Ratio excludes \$2 million (NZ\$3 million), (March 2018: \$76 million (NZ\$81 million), September 2017: \$205 million (NZ\$222 million)) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

Asset Quality (continued) ⁽¹⁾

90+ Days Past Due and Gross Impaired Assets

	As at			Sep 18 v Sep 17 %	Sep 18 v Mar 18 %
	30 Sep 18 \$m	31 Mar 18 \$m	30 Sep 17 \$m		
90+ days past due (DPD) loans	2,648	2,427	2,245	18.0	9.1
Gross impaired assets ⁽²⁾	1,521	1,609	1,724	(11.8)	(5.5)
90+ DPD and gross impaired assets	4,169	4,036	3,969	5.0	3.3

	As at			Sep 18 v Sep 17	Sep 18 v Mar 18
	30 Sep 18	31 Mar 18	30 Sep 17		
90+ DPD loans to gross loans and acceptances	0.45%	0.43%	0.40%	5 bps	2 bps
Gross impaired assets to gross loans and acceptances	0.26%	0.28%	0.30%	(4 bps)	(2 bps)
90+ DPD and gross impaired assets to gross loans and acceptances	0.71%	0.71%	0.70%	1 bp	-

September 2018 v September 2017

The Group ratio of **90+ DPD loans to gross loans and acceptances** increased by 5 basis points to 0.45%. This was primarily driven by the Australian mortgage portfolio with a modest increase in delinquencies across all states.

The Group ratio of **gross impaired assets to gross loans and acceptances** decreased by 4 basis points to 0.26%. This was predominantly driven by the sustained improvement in conditions for the New Zealand dairy industry resulting in a reduction to the impaired dairy portfolio.

September 2018 v March 2018

The Group ratio of **90+ DPD loans to gross loans and acceptances** increased by 2 basis points to 0.45%. This was primarily driven by the Australian mortgage portfolio with a modest increase in delinquencies in most states.

The Group ratio of **gross impaired assets to gross loans and acceptances** decreased by 2 basis points to 0.26%. The decrease was predominantly driven by the sustained improvement in conditions for the New Zealand dairy industry resulting in a reduction to the impaired dairy portfolio.

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

⁽²⁾ Gross impaired assets include \$2 million (NZ\$3 million), (March 2018: \$76 million (NZ\$81 million), September 2017: \$205 million (NZ\$222 million)) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

Capital Management and Funding

Balance Sheet Management Overview

The Group aims to maintain 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 Common Equity Tier 1 (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 ADIs and 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) will be 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.

Total Loss-absorbing Capacity (TLAC)

- The Financial Stability Board issued the TLAC standard in November 2015 for global systemically important banks and in June 2018 sought public feedback on the technical implementation of the TLAC standard. At this stage, APRA has yet to issue guidance on how TLAC might be implemented.

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

Capital Management

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

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

Pillar 3 Disclosures

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

Capital Management and Funding (continued)

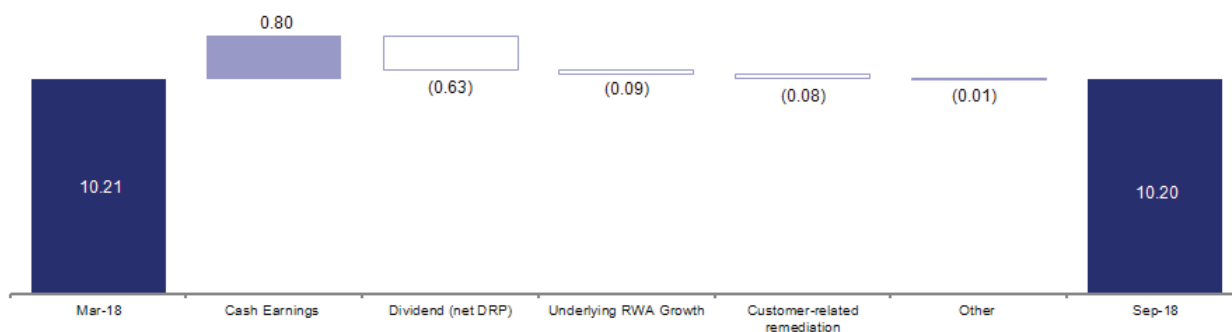
Capital Management (continued)

Capital Ratios

Capital Ratios	As at			Sep 18 v Sep 17	Sep 18 v Mar 18
	30 Sep 18 %	31 Mar 18 %	30 Sep 17 %		
Common Equity Tier 1 (CET1)	10.20	10.21	10.06	14 bps	(1 bp)
Tier 1	12.38	12.40	12.41	(3 bps)	(2 bps)
Total capital	14.12	14.43	14.58	(46 bps)	(31 bps)

Risk-Weighted Assets (RWA)	As at			Sep 18 v Sep 17	Sep 18 v Mar 18
	30 Sep 18 \$m	31 Mar 18 \$m	30 Sep 17 \$m		
Credit risk	331,381	329,882	325,969	1.7	0.5
Market risk	9,460	8,656	7,766	21.8	9.3
Operational risk	37,500	39,027	37,575	(0.2)	(3.9)
Interest rate risk in the banking book (IRRBB)	11,343	9,850	10,804	5.0	15.2
Total risk-weighted assets	389,684	387,415	382,114	2.0	0.6

Movements in Common Equity Tier 1 Ratio



Capital Movements During the Half Year

The Group's CET1 ratio was 10.20% at 30 September 2018. The key movements in capital over the September 2018 half year include:

- Cash earnings less the dividend net of Dividend Reinvestment Plan (DRP) participation resulting in an increase of 17 basis points.
- A net increase in RWA which reduced the CET1 ratio by 9 basis points. Increases in credit risk, IRRBB and market risk were partially offset by a reduction in operational risk RWA.
- A customer-related remediation provision of \$314 million (after tax) resulting in a decrease of 8 basis points.

Dividend and Dividend Reinvestment Plan

The Group periodically adjusts the DRP to reflect its capital position and outlook. The final dividend for the year ending 30 September 2018 has been maintained at 99 cents and the DRP discount is 1.5% with no participation limit.

National Income Securities

The distributions on the National Income Securities are currently not able to be franked due to a provision in the tax law which applies specifically to instruments that qualify as Tier 1 capital for prudential purposes. When the National Income Securities no longer qualify as Tier 1

capital from 31 December 2021, it is expected that any subsequent distributions will be franked to the same extent as dividends on NAB's ordinary shares are franked. 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.

Tier 2 Capital Initiatives

The Group's Tier 2 capital initiatives during the September 2018 full year include the following capital reductions:

- On 28 November 2017, NAB redeemed \$950 million of Subordinated Notes.
- On 12 June 2018, NAB redeemed £350 million of Subordinated Notes.
- On 26 June 2018, NAB redeemed €500 million of Subordinated Notes.
- The Group also repurchased and surrendered for cancellation in aggregate US\$39 million of the Undated Subordinated Notes issued on 9 October 1986. The outstanding nominal amount of the Undated Subordinated Notes is US\$77 million as at 30 September 2018.

Capital Management and Funding (continued)

Funding and Liquidity

The Group monitors the composition and stability of funding and liquidity through the Board approved risk appetite which includes compliance with regulatory requirements of APRA's 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

The Group employs a range of metrics to set its risk appetite and measure balance sheet strength. At 30 September 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.

Group Funding Metrics

	As at			
	30 Sep 18	30 Sep 17	30 Sep 16	30 Sep 15 ⁽¹⁾
	%	%	%	%
Customer Funding Index	69	70	69	71
Term Funding Index	24	23	22	21
Stable Funding Index	93	93	91	92
Net Stable Funding Ratio	113	108	n/a	n/a

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 the September 2018 full year, 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 the September 2018 full year 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.

Term Wholesale Funding by Deal Type

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
Senior Public Offshore	47%	44%	49%
Senior Public Domestic	25%	16%	21%
Secured Public Offshore	4%	-	14%
Secured Public Domestic	12%	26%	-
Private Placements	12%	14%	13%
Subordinated Public Debt	-	-	3%
Total	100%	100%	100%

Term Wholesale Funding by Currency

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
USD	26%	35%	47%
AUD	38%	44%	24%
EUR	22%	12%	14%
GBP	3%	3%	7%
JPY	5%	-	4%
Other	6%	6%	4%
Total	100%	100%	100%

⁽¹⁾ Prior periods have not been restated to exclude discontinued operations.

Capital Management and Funding (continued)

Funding and Liquidity (continued)

Short-term Wholesale Funding

The Group maintained consistent access to international and domestic short-term wholesale funding markets during the September 2018 full year, 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).

National Australia Bank Credit Ratings

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

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Section 4

Review of Divisional Operations and Results

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Divisional Performance Summary

Year ended 30 September 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⁾ \$m	Group cash earnings \$m
Net interest income	5,539	3,964	1,882	1,698	384	13,467
Other operating income ⁽²⁾ ⁽³⁾	1,068	1,541	1,451	520	179	4,759
Customer-related remediation ⁽⁴⁾	-	-	-	-	(249)	(249)
Net operating income	6,607	5,505	3,333	2,218	314	17,977
Operating expenses ⁽⁵⁾	(2,230)	(3,046)	(1,297)	(869)	(684)	(8,126)
Restructuring-related costs ⁽⁶⁾	-	-	-	-	(755)	(755)
Customer-related remediation ⁽⁶⁾	-	-	-	-	(111)	(111)
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
Cash earnings / (deficit) excluding restructuring-related costs and customer-related remediation	2,911	1,539	1,541	922	(420)	6,493
Key balance sheet items (\$bn)						
Gross loans and acceptances	199.5	218.8	91.4	75.6	0.3	585.6
Customer deposits	132.5	120.6	98.0	53.5	4.4	409.0

⁽¹⁾ Corporate Functions and Other includes Group Eliminations.⁽²⁾ Consumer Banking and Wealth includes net investment income.⁽³⁾ Excluding customer-related remediation.⁽⁴⁾ Refer to Note 3 Other income for further information.⁽⁵⁾ Excluding restructuring-related costs and customer-related remediation.⁽⁶⁾ Refer to Note 4 Operating expenses for further information.

Divisional Performance Summary

Year ended 30 September 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	Group cash earnings \$m
Net interest income	5,257	3,884	1,972	1,586	467	13,166
Other operating income ⁽²⁾	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
Key balance sheet items (\$bn)						Total
Gross loans and acceptances	193.7	209.4	88.0	72.8	1.2	565.1
Customer deposits	130.0	116.3	97.0	50.7	13.6	407.6

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

Divisional Performance Summary

Half Year ended 30 September 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⁾ \$m	Group cash earnings \$m
Net interest income	2,783	1,950	936	870	178	6,717
Other operating income ⁽²⁾ ⁽³⁾	536	771	714	257	138	2,416
Customer-related remediation ⁽⁴⁾	-	-	-	-	(249)	(249)
Net operating income	3,319	2,721	1,650	1,127	67	8,884
Operating expenses ⁽⁵⁾	(1,139)	(1,536)	(860)	(443)	(359)	(4,137)
Customer-related remediation ⁽⁵⁾	-	-	-	-	(111)	(111)
Underlying profit / (loss)	2,180	1,185	990	684	(403)	4,636
Credit impairment (charge) / write-back	(133)	(138)	36	(32)	(139)	(406)
Cash earnings / (deficit) before tax and distributions	2,047	1,047	1,026	652	(542)	4,230
Income tax (expense) / benefit	(618)	(312)	(263)	(182)	139	(1,236)
Cash earnings / (deficit) before distributions	1,429	735	763	470	(403)	2,994
Distributions	-	-	-	-	(51)	(51)
Cash earnings / (deficit)	1,429	735	763	470	(454)	2,943
Cash earnings / (deficit) excluding customer-related remediation	1,429	735	763	470	(193)	3,204
Key balance sheet items (\$bn)						
Gross loans and acceptances	199.5	218.8	91.4	75.6	0.3	585.6
Customer deposits	132.5	120.6	98.0	53.5	4.4	409.0

⁽¹⁾ Corporate Functions and Other includes Group Eliminations.⁽²⁾ Consumer Banking and Wealth includes net investment income.⁽³⁾ Excluding customer-related remediation.⁽⁴⁾ Refer to Note 3 Other income for further information.⁽⁵⁾ Refer to Note 4 Operating expenses for further information.

Divisional Performance Summary

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

⁽¹⁾ Corporate Functions and Other includes Group Eliminations.⁽²⁾ Consumer Banking and Wealth includes net investment income.⁽³⁾ Excluding restructuring-related costs.⁽⁴⁾ Refer to Note 4 Operating expenses for further information.

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 in Health, Agribusiness, Government, Education, Community and Franchising (GECF), Professional Services and Commercial Real Estate. The division also serves high net worth customers through Private Bank and JBWere.

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Net interest income	5,539	5,257	5.4	2,783	2,756	1.0
Other operating income	1,068	1,062	0.6	536	532	0.8
Net operating income	6,607	6,319	4.6	3,319	3,288	0.9
Operating expenses	(2,230)	(2,084)	7.0	(1,139)	(1,091)	4.4
Underlying profit	4,377	4,235	3.4	2,180	2,197	(0.8)
Credit impairment charge	(207)	(180)	15.0	(133)	(74)	79.7
Cash earnings before tax	4,170	4,055	2.8	2,047	2,123	(3.6)
Income tax expense	(1,259)	(1,214)	3.7	(618)	(641)	(3.6)
Cash earnings	2,911	2,841	2.5	1,429	1,482	(3.6)

Volumes (\$bn)

Housing lending	90.8	90.4	0.4	90.8	90.6	0.2
Business lending	105.3	100.0	5.3	105.3	102.4	2.8
Other lending	3.4	3.3	3.0	3.4	3.4	-
Gross loans and acceptances	199.5	193.7	3.0	199.5	196.4	1.6
Average interest earning assets	187.7	182.7	2.7	189.4	185.9	1.9
Total assets	199.8	192.8	3.6	199.8	196.2	1.8
Customer deposits	132.5	130.0	1.9	132.5	132.7	(0.2)
Total risk-weighted assets	116.2	112.2	3.6	116.2	114.4	1.6

Performance Measures

Cash earnings on average assets	1.49%	1.49%	-	1.44%	1.53%	(9 bps)
Cash earnings on average risk-weighted assets	2.55%	2.53%	2 bps	2.46%	2.64%	(18 bps)
Net interest margin	2.95%	2.88%	7 bps	2.93%	2.97%	(4 bps)
Cost to income ratio	33.8%	33.0%	80 bps	34.3%	33.2%	110 bps

Asset Quality	Year to			Half Year to		
	Sep 18	Sep 17	Sep 18 v Sep 17	Sep 18	Mar 18	Sep 18 v Mar 18
90+DPD assets plus gross impaired assets to gross loans and acceptances	0.78%	0.76%	2 bps	0.78%	0.75%	3 bps
Credit impairment charge to gross loans and acceptances (annualised)	0.10%	0.09%	1 bp	0.13%	0.08%	5 bps

Business and Private Banking

Financial Analysis

September 2018 v September 2017

Cash earnings increased by \$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.

Key movements	Key drivers
Net interest income up \$282m, 5.4%	<ul style="list-style-type: none"> Average interest earning assets increased by \$5.0 billion or 2.7% primarily due to growth in business lending as NAB continues to leverage its deep industry specialisations and strong market position. Customer deposits increased by \$2.5 billion or 1.9%, reflecting a continued focus on growing quality deposits. Net interest margin increased by 7 basis points mainly due to repricing benefits combined with favourable deposit costs. This was partially offset by the change in housing lending product mix and competitive pressures combined with full year impact of the bank levy.
Other operating income up \$6m, 0.6%	<ul style="list-style-type: none"> Higher lending fees and foreign exchange revenue. Lower income due to the sale of National Australia Trustees Limited on 30 September 2017.
Operating expenses up \$146m, 7.0%	<ul style="list-style-type: none"> Accelerated investment in technology and associated depreciation and amortisation charges, together with uplifting the compliance and control environment, the impact of annual salary increases and increased marketing. This is partially offset by productivity benefits including workforce restructuring associated with simplifying the Group's operations and reduction in third party spend.
Credit impairment charge up \$27m, 15.0%	<ul style="list-style-type: none"> Asset quality remains sound with 90+ DPD and impaired assets to gross loans and acceptances increasing 2 basis points driven by an increase in 90+ DPD assets largely as a result of the mortgage portfolio, partially offset by a reduction in impaired assets. Collective provision charges increased due to growth in gross loans and acceptances. Specific charges reduced due to a reduction in the number of individual impaired exposures.
Risk-weighted assets up \$4.0bn, 3.6%	<ul style="list-style-type: none"> Increase driven by growth in gross loans and acceptances.

September 2018 v March 2018

Cash earnings decreased by \$53 million or 3.6% driven by higher credit impairment charges combined with higher operating expenses due to the acceleration in investment spend, partially offset by balance sheet growth.

Key movements	Key drivers
Net interest income up \$27m, 1.0%	<ul style="list-style-type: none"> Average interest earning assets increased by \$3.5 billion or 1.9% due to growth in business lending as NAB continues to leverage its deep industry specialisations and strong market position. Net interest margin decreased by 4 basis points due to the unfavourable change in housing lending product mix and continued competitive pressure combined with higher short term wholesale funding costs, largely impacting the housing lending portfolio. These changes were partially offset by lower deposit costs driven by favourable margins.
Other operating income up \$4m, 0.8%	<ul style="list-style-type: none"> Seasonally higher foreign exchange revenue.
Operating expenses up \$48m, 4.4%	<ul style="list-style-type: none"> Accelerated investment in technology and associated depreciation and amortisation charges, together with uplifting the compliance and control environment and increased marketing. This is partially offset by productivity benefits including workforce restructuring associated with simplifying the Group's operations and reduction in third party spend.
Credit impairment charge up \$59m, 79.7%	<ul style="list-style-type: none"> Asset quality remains sound with 90+ DPD and impaired assets to gross loans and acceptances increasing by 3 basis points driven by an increase in 90+ DPD assets largely as a result of the mortgage portfolio. Collective provision charges increased due to growth in gross loans and acceptances and releases in the March 2018 half year that were not repeated. Specific charges increased due to an increase in the number of individual impaired exposures.
Risk-weighted assets up \$1.8bn, 1.6%	<ul style="list-style-type: none"> Increase driven by growth in gross loans and acceptances.

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 advisers, including mortgage brokers and a financial planning network of self-employed, aligned and salaried advisers in Australia.

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Net interest income	3,964	3,884	2.1	1,950	2,014	(3.2)
Net investment income	949	987	(3.9)	463	486	(4.7)
Other operating income	592	610	(3.0)	308	284	8.5
Net operating income	5,505	5,481	0.4	2,721	2,784	(2.3)
Operating expenses	(3,046)	(2,910)	4.7	(1,536)	(1,510)	1.7
Underlying profit	2,459	2,571	(4.4)	1,185	1,274	(7.0)
Credit impairment charge	(271)	(267)	1.5	(138)	(133)	3.8
Cash earnings before tax	2,188	2,304	(5.0)	1,047	1,141	(8.2)
Income tax expense	(649)	(671)	(3.3)	(312)	(337)	(7.4)
Cash earnings	1,539	1,633	(5.8)	735	804	(8.6)

Volumes (\$bn)

Housing lending	212.2	202.5	4.8	212.2	207.0	2.5
Other lending	6.6	6.9	(4.3)	6.6	6.9	(4.3)
Gross loans and acceptances	218.8	209.4	4.5	218.8	213.9	2.3
Average interest earning assets	198.5	188.0	5.6	200.9	196.0	2.5
Total assets	228.7	217.6	5.1	228.7	223.4	2.4
Customer deposits	120.6	116.3	3.7	120.6	118.5	1.8
Total risk-weighted assets	79.0	78.2	1.0	79.0	78.3	0.9

Performance Measures

Cash earnings on average assets	0.70%	0.79%	(9 bps)	0.66%	0.74%	(8 bps)
Cash earnings on average risk-weighted assets (Consumer Banking)	1.69%	1.98%	(28 bps)	1.62%	1.78%	(16 bps)
Net interest margin (Consumer Banking)	2.00%	2.07%	(7 bps)	1.94%	2.06%	(12 bps)
Cost to income ratio (Consumer Banking)	53.1%	50.4%	270 bps	54.0%	52.3%	170 bps
Cost to income ratio (Wealth)	65.3%	64.7%	60 bps	67.7%	63.0%	470 bps
Funds under management and administration (FUM/A) (spot) (\$m)	119,145	112,935	5.5	119,145	116,090	2.6
Funds under management and administration (FUM/A) (average) (\$m)	117,371	110,106	6.6	118,046	116,695	1.2
Assets under management (AUM) (spot) (\$m)	206,704	195,258	5.9	206,704	199,309	3.7
Assets under management (AUM) (average) (\$m)	201,386	192,655	4.5	203,349	199,422	2.0
Investment income to average FUM/A (bps) (Wealth)	58	62	(4 bps)	56	59	(3 bps)
Investment income to average AUM (bps) (Wealth)	13	16	(3 bps)	13	14	(1 bp)

Asset Quality	Year to			Half Year to		
	Sep 18	Sep 17	Sep 18 v Sep 17	Sep 18	Mar 18	Sep 18 v Mar 18
90+DPD assets plus gross impaired assets to gross loans and acceptances	0.84%	0.74%	10 bps	0.84%	0.80%	4 bps
Credit impairment charge to gross loans and acceptances (annualised)	0.12%	0.13%	(1 bp)	0.13%	0.12%	1 bp

Consumer Banking and Wealth

Financial Analysis

September 2018 v September 2017

Cash earnings decreased by \$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.

Key movements	Key drivers
Net interest income up \$80m, 2.1%	<ul style="list-style-type: none"> Average interest earning assets increased by \$10.5 billion or 5.6% driven by growth in housing lending. Customer deposits increased by \$4.3 billion or 3.7% with growth across all key products, reflecting a continued focus on growing quality deposits. Net interest margin decreased by 7 basis points driven by the change in housing lending product mix and competitive pressures, partially offset by repricing benefits. Funding and liquidity costs were broadly flat with lower funding and deposit costs offsetting the full year impact of the bank levy.
Net investment income down \$38m, 3.9%	<ul style="list-style-type: none"> Lower income from sales of asset management businesses in prior periods. Margin compression, driven by the change in business mix to lower margin products. Partially offset by revenue growth from higher average FUM/A (increase of \$7.3 billion or 6.6%) and average AUM (increase of \$8.7 billion or 4.5%) driven by strong investment markets.
Other operating income down \$18m, 3.0%	<ul style="list-style-type: none"> Lower fee income driven by the removal of ATM fees, combined with lower international money transfer fees.
Operating expenses up \$136m, 4.7%	<ul style="list-style-type: none"> Acceleration in investment, including in new capabilities to improve the customer experience and deliver the new payments platform, combined with increased spend on uplifting the compliance and control environment. Partially offset by lower costs due to productivity benefits including workforce restructuring and the partial sale of an asset management business recognised in the prior period.
Credit impairment charge up \$4m, 1.5%	<ul style="list-style-type: none"> Higher due to an increase in mortgage delinquency rates, partially offset by lower charges for unsecured lending. 90+ DPD assets plus gross impaired assets to gross loans and acceptances increased 10 basis points to 0.84% reflecting an increase in mortgages delinquencies.
Risk-weighted assets up \$0.8bn, 1.0%	<ul style="list-style-type: none"> Increased due to housing lending volume growth.

September 2018 v March 2018

Cash earnings decreased by \$69 million or 8.6% driven by lower revenue as a result of higher short term funding costs, combined with margin compression in both the housing lending and Wealth portfolios. This was partially offset by higher revenue from balance sheet growth.

Key movements	Key drivers
Net interest income down \$64m, 3.2%	<ul style="list-style-type: none"> Average interest earning assets increased by \$4.9 billion or 2.5% driven by growth in housing lending. Customer deposits increased by \$2.1 billion or 1.8% with growth across all key products, reflecting a continued focus on growing quality deposits. Net interest margin declined by 12 basis points driven by higher short term wholesale funding costs, the unfavourable change in housing lending product mix and competitive pressures.
Net investment income down \$23m, 4.7%	<ul style="list-style-type: none"> Lower income due to margin compression, driven by the change in business mix to lower margin products. Increase in volume related expenses in the half year. Partially offset by revenue growth from higher average FUM/A (increase of \$1.4 billion or 1.2%) and average AUM (increase of \$3.9 billion or 2.0%) driven by strong investment markets.
Other operating income up \$24m, 8.5%	<ul style="list-style-type: none"> Higher housing lending fees due to volume growth. Seasonally higher foreign exchange revenue.
Operating expenses up \$26m, 1.7%	<ul style="list-style-type: none"> Acceleration in investment, including new capabilities to improve the customer experience and deliver the new payments platform, combined with increased spend on uplifting the compliance and control environment. Lower costs due to productivity benefits, including workforce restructuring.
Credit impairment charge up \$5m, 3.8%	<ul style="list-style-type: none"> Higher due to an increase in unsecured lending delinquency rates. 90+ DPD assets plus gross impaired assets to gross loans and acceptances increased 4 basis points over the half year to 0.84%, reflecting an increase in mortgage delinquencies.
Risk-weighted assets up \$0.7bn, 0.9%	<ul style="list-style-type: none"> Increased due to housing lending volume growth.

Consumer Banking and Wealth

Consumer Banking

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Net interest income	3,964	3,884	2.1	1,950	2,014	(3.2)
Other operating income	547	565	(3.2)	285	262	8.8
Net operating income	4,511	4,449	1.4	2,235	2,276	(1.8)
Operating expenses	(2,397)	(2,242)	6.9	(1,207)	(1,190)	1.4
Underlying profit	2,114	2,207	(4.2)	1,028	1,086	(5.3)
Credit impairment charge	(271)	(267)	1.5	(138)	(133)	3.8
Cash earnings before tax	1,843	1,940	(5.0)	890	953	(6.6)
Income tax expense	(554)	(581)	(4.6)	(269)	(285)	(5.6)
Cash earnings	1,289	1,359	(5.2)	621	668	(7.0)

Wealth

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Net investment income	949	987	(3.9)	463	486	(4.7)
Other operating income	45	45	-	23	22	4.5
Net operating income	994	1,032	(3.7)	486	508	(4.3)
Operating expenses	(649)	(668)	(2.8)	(329)	(320)	2.8
Cash earnings before tax	345	364	(5.2)	157	188	(16.5)
Income tax expense	(95)	(90)	5.6	(43)	(52)	(17.3)
Cash earnings	250	274	(8.8)	114	136	(16.2)

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, including branches in the US, UK and Asia, with specialised industry relationships and product teams.

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Net interest income	1,882	1,972	(4.6)	936	946	(1.1)
Other operating income	1,451	1,368	6.1	714	737	(3.1)
Net operating income	3,333	3,340	(0.2)	1,650	1,683	(2.0)
Operating expenses	(1,297)	(1,236)	4.9	(660)	(637)	3.6
Underlying profit	2,036	2,104	(3.2)	990	1,046	(5.4)
Credit impairment (charge) / write-back	43	(37)	large	36	7	large
Cash earnings before tax	2,079	2,067	0.6	1,026	1,053	(2.6)
Income tax expense	(538)	(532)	1.1	(263)	(275)	(4.4)
Cash earnings	1,541	1,535	0.4	763	778	(1.9)

Net operating income

Lending and deposits income	2,093	1,986	5.4	1,045	1,048	(0.3)
Markets income (ex derivative valuation adjustments)	841	903	(6.9)	405	436	(7.1)
Derivative valuation adjustments ⁽¹⁾	(32)	24	large	(9)	(23)	(60.9)
Other income	431	427	0.9	209	222	(5.9)
Total net operating income	3,333	3,340	(0.2)	1,650	1,683	(2.0)

Volumes (\$bn)

Corporate Finance ⁽²⁾	30.8	26.8	14.9	30.8	26.9	14.5
Business lending	60.1	58.7	2.4	60.1	58.1	3.4
Other lending	0.5	2.5	(80.0)	0.5	0.5	-
Gross loans and acceptances	91.4	88.0	3.9	91.4	85.5	6.9
Average interest earning assets	237.6	239.0	(0.6)	236.0	239.2	(1.3)
Total assets	263.8	259.3	1.7	263.8	250.1	5.5
Customer deposits	98.0	97.0	1.0	98.0	89.6	9.4
Total risk-weighted assets	112.3	114.7	(2.1)	112.3	114.8	(2.2)

Performance Measures

Cash earnings on average assets	0.58%	0.55%	3 bps	0.58%	0.58%	-
Cash earnings on average risk-weighted assets	1.34%	1.30%	4 bps	1.32%	1.36%	(4 bps)
Net interest margin	0.79%	0.83%	(4 bps)	0.79%	0.79%	-
Net interest margin (ex markets)	1.67%	1.56%	11 bps	1.69%	1.64%	5 bps
Cost to income ratio	38.9%	37.0%	190 bps	40.0%	37.8%	220 bps

	Year to			Half Year to		
	Sep 18	Sep 17	Sep 18 v Sep 17	Sep 18	Mar 18	Sep 18 v Mar 18
Asset Quality						
90+DPD assets plus gross impaired assets to gross loans and acceptances	0.39%	0.34%	5 bps	0.39%	0.39%	-
Credit impairment charge to gross loans and acceptances (annualised)	(0.05%)	0.04%	(9 bps)	(0.08%)	(0.02%)	(6 bps)

⁽¹⁾ Derivative valuation adjustments consist of credit valuation adjustments and funding valuation adjustments.

⁽²⁾ Corporate Finance represents the previously named Capital Financing business.

Corporate and Institutional Banking

Financial Analysis

September 2018 v September 2017

Cash earnings increased by \$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.

Key movements	Key drivers
Net interest income down \$90m, 4.6%	<ul style="list-style-type: none"> Includes a decrease of \$117 million due to movements of economic hedges offset in other operating income. Underlying increase of \$27 million reflects higher net interest margin (ex Markets) together with increased gross loans and acceptances, partially offset by lower Markets income. Net interest margin (ex Markets) increased by 11 basis points benefitting from continued focus on portfolio returns together with lower funding costs, partially offset by the full year impact of the bank levy. Gross loans and acceptances increased by \$3.4 billion or 3.9% reflecting \$4 billion growth in higher margin Corporate Finance lending together with a \$2 billion reduction in other lending (primarily mortgages) due to the sale of the Private Wealth business in Asia. Customer deposits increased by \$1 billion or 1% reflecting increased institutional deposits, partially offset by the sale of the Private Wealth business in Asia.
Other operating income up \$83m, 6.1%	<ul style="list-style-type: none"> Includes an increase of \$117 million due to movements of economic hedges offset in net interest income. Underlying decrease of \$34 million due to lower trading income together with unfavourable movements in derivative valuation adjustments, partially offset by higher Corporate Finance fees and increased sales of customer risk management products.
Operating expenses up \$61m, 4.9%	<ul style="list-style-type: none"> Accelerated investment in technology and associated depreciation and amortisation charges together with uplifting the compliance and control environment. This is partially offset by productivity benefits including workforce restructuring associated with simplifying the Group's operations and reduction in third party spend.
Credit impairment charge down \$80m	<ul style="list-style-type: none"> Credit quality improvement (including write-backs) and lower charges relating to the impairment of a small number of large exposures.
Risk-weighted assets down \$2.4bn, 2.1%	<ul style="list-style-type: none"> Lower risk-weighted assets reflecting continued returns focussed portfolio management.

September 2018 v March 2018

Cash earnings decreased \$15 million or 1.9% driven by decreased deal activity together with higher operating expenses reflecting accelerated investment in technology, partially offset by credit quality improvement.

Key movements	Key drivers
Net interest income down \$10m, 1.1%	<ul style="list-style-type: none"> Includes a decrease of \$46 million due to movements of economic hedges offset in other operating income. Underlying increase of \$36 million reflects higher net interest margin (ex Markets) and increased gross loans and acceptances. Net interest margin (ex Markets) increased by 5 basis points mainly due to lower deposit and funding costs. Gross loans and acceptances increased by \$5.9 billion or 6.9% reflecting growth in higher margin Corporate Finance and Business Lending. Customer deposits increased \$8.4 billion or 9.4% reflecting increased institutional deposits.
Other operating income down \$23m, 3.1%	<ul style="list-style-type: none"> Includes an increase of \$46 million due to movements of economic hedges offset in net interest income. Underlying decrease of \$69 million due to decreased deal activity in Corporate Finance and lower Markets income.
Operating expenses up \$23m, 3.6%	<ul style="list-style-type: none"> Accelerated investment in technology and associated depreciation and amortisation charges together with uplifting the compliance and control environment. This is partially offset by productivity benefits including workforce restructuring associated with simplifying the Group's operations and reduction in third party spend.
Credit impairment charge down \$29m	<ul style="list-style-type: none"> Credit quality improvement (including write-backs) and lower charges relating to the impairment of a small number of large exposures.
Risk-weighted assets down \$2.5bn, 2.2%	<ul style="list-style-type: none"> Lower risk-weighted assets reflecting continued returns focussed portfolio management, together with distribution and other capital initiatives.

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.

Results presented in local currency. See page 53 for results in Australian dollars and page 102 for foreign exchange rates.

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Net interest income	1,848	1,692	9.2	943	905	4.2
Other operating income	566	565	0.2	279	287	(2.8)
Net operating income	2,414	2,257	7.0	1,222	1,192	2.5
Operating expenses	(946)	(882)	7.3	(481)	(465)	3.4
Underlying profit	1,468	1,375	6.8	741	727	1.9
Credit impairment charge	(76)	(71)	7.0	(35)	(41)	(14.6)
Cash earnings before tax	1,392	1,304	6.7	706	686	2.9
Income tax expense	(388)	(363)	6.9	(196)	(192)	2.1
Cash earnings	1,004	941	6.7	510	494	3.2

Volumes (\$bn)

Housing lending	39.8	37.4	6.4	39.8	38.2	4.2
Business lending	41.5	40.4	2.7	41.5	40.3	3.0
Other lending	1.3	1.3	-	1.3	1.3	-
Gross loans and acceptances	82.6	79.1	4.4	82.6	79.8	3.5
Average interest earning assets	81.6	77.7	5.0	82.3	80.9	1.7
Total assets	86.4	82.6	4.6	86.4	84.0	2.9
Customer deposits	58.5	55.1	6.2	58.5	58.2	0.5
Total risk-weighted assets	61.2	57.8	5.9	61.2	59.0	3.7

Performance Measures

Cash earnings on average assets	1.19%	1.18%	1 bp	1.20%	1.19%	1 bp
Cash earnings on average risk-weighted assets	1.70%	1.63%	7 bps	1.69%	1.71%	(2 bps)
Net interest margin	2.27%	2.18%	9 bps	2.29%	2.24%	5 bps
Cost to income ratio	39.2%	39.1%	10 bps	39.4%	39.0%	40 bps
FTEs (spot)	4,655	4,732	(1.6)	4,655	4,676	(0.4)

Asset Quality	Year to			Half Year to		
	Sep 18	Sep 17	Sep 18 v Sep 17	Sep 18	Mar 18	Sep 18 v Mar 18
90+DPD assets plus gross impaired assets to gross loans and acceptances ⁽¹⁾	0.46%	0.79%	(33 bps)	0.46%	0.62%	(16 bps)
Credit impairment charge to gross loans and acceptances (annualised)	0.09%	0.09%	-	0.08%	0.10%	(2 bps)

Market share ⁽²⁾	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
Housing lending	15.7%	15.6%	15.7%
Agribusiness	22.3%	22.5%	22.6%
Business lending	23.8%	23.5%	23.8%
Retail deposits	18.1%	18.5%	18.2%

Distribution	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
Number of retail branches	153	155	158
Number of ATMs	633	618	549
Number of internet banking customers (no.'000s) ⁽³⁾	731	712	695

⁽¹⁾ Gross impaired assets include NZ\$3 million (March 2018: NZ\$81 million, September 2017: NZ\$222 million) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

⁽²⁾ Source: RBNZ.

⁽³⁾ Sep 17 has been restated due to a change in definition.

New Zealand Banking

Financial Analysis (in local currency)

September 2018 v September 2017

Cash earnings increased by NZ\$63 million or 6.7% driven by higher revenue, partially offset by higher expenses as a result of accelerated investment in the business.

Key movements	Key drivers
Net interest income up \$156m, 9.2%	<ul style="list-style-type: none"> Average interest earning assets increased by \$3.9 billion or 5.0% due to growth in housing and business lending, even with subdued business lending system growth in the current year. Customer deposits increased by \$3.4 billion or 6.2% with strong growth in demand and term deposits. Net interest margin increased by 9 basis points mainly due to improved lending margin and lower funding costs, partially offset by lower earnings on capital.
Other operating income up \$1m, 0.2%	<ul style="list-style-type: none"> Increased line fee income and revenue from funds under management. Offset by reduction and removal of certain fees including ATM fees from 1 April 2018.
Operating expenses up \$64m, 7.3%	<ul style="list-style-type: none"> Accelerated investment in digital capabilities to enhance frontline efficiency and customer experience, partially offset by productivity savings across the business. Depreciation and amortisation charges associated with investment in priority segments and digital.
Credit impairment charge up \$5m, 7.0%	<ul style="list-style-type: none"> Includes collective provision forward looking adjustments for targeted sectors, partially offset by improvement in the dairy portfolio. 90+DPD assets plus gross impaired assets to gross loans and acceptances decreased by 33 basis points mainly due to a significant decrease in gross impaired assets relating to dairy exposures.
Total risk-weighted assets up \$3.4bn, 5.9%	<ul style="list-style-type: none"> Growth in exposures, partially offset by improvement in the quality of the portfolio.

September 2018 v March 2018

Cash earnings increased by NZ\$16 million or 3.2% driven by improved revenue, partially offset by higher expenses with accelerated investment in the business.

Key movements	Key drivers
Net interest income up \$38m, 4.2%	<ul style="list-style-type: none"> Average interest earning assets increased by \$1.4 billion or 1.7% driven by growth in both housing and business lending. Housing and business lending growth outperformed system in the September 2018 half year. Customer deposits increased by \$0.3 billion or 0.5% following stronger growth in March 2018 half year. Net interest margin increased by 5 basis points mainly due to lower deposit and wholesale funding costs, partially offset by lower housing lending margin.
Other operating income down \$8m, 2.8%	<ul style="list-style-type: none"> Reduction and removal of certain fees including ATM fees from 1 April 2018. Partially offset by improved revenue from funds under management.
Operating expenses up \$16m, 3.4%	<ul style="list-style-type: none"> Accelerated investment in digital capabilities to enhance frontline efficiency and customer experience, partially offset by productivity savings across the business. Depreciation and amortisation charges associated with investment in priority segments and digital.
Credit impairment charge down \$6m, 14.6%	<ul style="list-style-type: none"> Continuation of strong asset quality across most portfolios, and ongoing improvement in dairy exposures. 90+DPD assets plus gross impaired assets to gross loans and acceptances decreased by 16 basis points mainly due to a decrease in gross impaired assets relating to dairy exposures.
Total risk-weighted assets up \$2.2bn, 3.7%	<ul style="list-style-type: none"> Growth in exposures, partially offset by improvement in the quality of the portfolio.

New Zealand Banking

Results presented in Australian dollars. See page 51 for results in local currency.

	Year to			Half Year to		
	Sep 18 \$m	Sep 17 \$m	Sep 18 v Sep 17 %	Sep 18 \$m	Mar 18 \$m	Sep 18 v Mar 18 %
Net interest income	1,698	1,586	7.1	870	828	5.1
Other operating income	520	530	(1.9)	257	263	(2.3)
Net operating income	2,218	2,116	4.8	1,127	1,091	3.3
Operating expenses	(869)	(827)	5.1	(443)	(426)	4.0
Underlying profit	1,349	1,289	4.7	684	665	2.9
Credit impairment charge	(70)	(67)	4.5	(32)	(38)	(15.8)
Cash earnings before tax	1,279	1,222	4.7	652	627	4.0
Income tax expense	(357)	(340)	5.0	(182)	(175)	4.0
Cash earnings	922	882	4.5	470	452	4.0

Impact of foreign exchange rate movements

Favourable / (unfavourable) September 2018	Year since Sep 17	Sep 18 v Sep 17	Half Year since Mar 18	Sep 18 v Mar 18
	\$m	Ex FX %	\$m	Ex FX %
Net interest income	(35)	9.3	6	4.3
Other operating income	(10)	-	2	(3.0)
Operating expenses	18	7.3	(3)	3.3
Credit impairment charge	1	6.0	-	(15.8)
Income tax (expense) / benefit	7	7.1	(2)	2.9
Cash earnings	(19)	6.7	3	3.3

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.

	Year to			Half Year to		
	Sep 18	Sep 17 ⁽¹⁾	Sep 18 v	Sep 18	Mar 18	Sep 18 v
	\$m	\$m	Sep 17 %	\$m	\$m	Mar 18 %
Net operating income ⁽²⁾	563	639	(11.9)	316	247	27.9
Customer-related remediation ⁽³⁾	(249)	-	large	(249)	-	large
Net operating income	314	639	(50.9)	67	247	(72.9)
Operating expenses ⁽⁴⁾	(684)	(578)	18.3	(359)	(325)	10.5
Restructuring-related costs ⁽⁵⁾	(755)	-	large	-	(755)	large
Customer-related remediation ⁽⁵⁾	(111)	-	large	(111)	-	large
Underlying profit / (loss)	(1,236)	61	large	(403)	(833)	(51.6)
Credit impairment charge	(274)	(259)	5.8	(139)	(135)	3.0
Cash (deficit) / earnings before tax and distributions	(1,510)	(198)	large	(542)	(968)	(44.0)
Income tax benefit	399	47	large	139	260	(46.5)
Cash deficit before distributions	(1,111)	(151)	large	(403)	(708)	(43.1)
Distributions	(100)	(98)	2.0	(51)	(49)	4.1
Cash deficit	(1,211)	(249)	large	(454)	(757)	(40.0)
Cash deficit (excluding restructuring-related costs and customer-related remediation)	(420)	(249)	(68.7)	(193)	(227)	15.0

September 2018 v September 2017

Cash deficit increased by \$962 million mainly driven by 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.

Key movements	Key drivers
Net operating income down \$325m, 50.9%	<ul style="list-style-type: none"> Includes customer-related remediation of \$249 million. Underlying decrease of \$76 million reflects lower income mainly from funding and risk management activities.
Operating expenses up \$972m	<ul style="list-style-type: none"> Includes restructuring-related costs of \$755 million and customer-related remediation of \$111 million. Underlying increase of \$106 million reflects higher legal and compliance costs, including costs associated with the Royal Commission.
Credit impairment charge up \$15m, 5.8%	<ul style="list-style-type: none"> Higher level of collective provisions for mortgage model enhancements, partially offset by lower level of collective provision FLAs than the prior year for targeted sectors.
Distributions are up \$2m, 2.0%	<ul style="list-style-type: none"> Distributions have remained stable.

September 2018 v March 2018

Cash deficit decreased by \$303 million compared to the March 2018 half year. This decrease was driven mainly by the restructuring-related costs, partially offset by customer-related remediation.

Key movements	Key drivers
Net operating income down \$180m, 72.9%	<ul style="list-style-type: none"> Includes customer-related remediation of \$249 million. Underlying increase of \$69 million reflects higher income from funding and risk management activities, including gains from entity simplification within the Group.
Operating expenses down \$610m, 56.5%	<ul style="list-style-type: none"> Includes restructuring-related costs of \$755 million recognised in the March 2018 half year, partially offset by customer-related remediation of \$111 million. Underlying increase of \$34 million reflects higher legal and compliance costs, including costs associated with the Royal Commission.
Credit impairment charge up \$4m, 3.0%	<ul style="list-style-type: none"> Higher level of collective provision FLAs raised for targeted sectors including agriculture and mortgage portfolios, and other macro-economic factors, partially offset by a lower level of collective provisions for mortgage model enhancements.
Distributions are up \$2m, 4.1%	<ul style="list-style-type: none"> Distributions have remained stable.

⁽¹⁾ The September 2017 comparative information was restated to include Group Eliminations.

⁽²⁾ Excluding customer-related remediation.

⁽³⁾ Refer to Note 3 Other income for further information.

⁽⁴⁾ Excluding restructuring-related costs and customer-related remediation.

⁽⁵⁾ Refer to Note 4 Operating expenses for further information.

Section 5

Financial Report

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Consolidated Financial Statements

Income Statement ⁽¹⁾

	Note	Year to		Half Year to	
		Sep 18 \$m	Sep 17 \$m	Sep 18 \$m	Mar 18 \$m
Interest income		28,543	27,403	14,450	14,093
Interest expense		(15,038)	(14,221)	(7,711)	(7,327)
Net interest income		13,505	13,182	6,739	6,766
Other income	3	5,596	4,842	2,738	2,858
Operating expenses	4	(9,910)	(8,539)	(4,726)	(5,184)
Credit impairment charge	8	(791)	(824)	(409)	(382)
Profit before income tax		8,400	8,661	4,342	4,058
Income tax expense	5	(2,455)	(2,480)	(1,273)	(1,182)
Net profit for the period from continuing operations		5,945	6,181	3,069	2,876
Net loss after tax for the period from discontinued operations	14	(388)	(893)	(97)	(291)
Net profit for the period		5,557	5,288	2,972	2,585
Profit attributable to non-controlling interests		3	3	1	2
Net profit attributable to owners of NAB		5,554	5,285	2,971	2,583
		cents	cents	cents	cents
Basic earnings per share		201.3	194.7	107.3	93.9
Diluted earnings per share		194.0	189.1	103.4	91.1
Basic earnings per share from continuing operations		215.6	228.2	110.9	104.7
Diluted earnings per share from continuing operations		207.2	220.1	106.6	101.0

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

Statement of Comprehensive Income ⁽¹⁾

	Note	Year to		Half Year to	
		Sep 18 \$m	Sep 17 \$m	Sep 18 \$m	Mar 18 \$m
Net profit for the period from continuing operations		5,945	6,181	3,069	2,876
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gains on defined benefit superannuation plans		7	-	7	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk		66	11	47	19
Revaluation of land and buildings		-	1	-	-
Currency adjustments on translation of other contributed equity		41	4	(5)	46
Equity instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		19	(1)	(7)	26
Tax on items transferred directly to equity		(18)	31	(12)	(6)
Total items that will not be reclassified to profit or loss		115	46	30	85
Items that will be reclassified subsequently to profit or loss					
Cash flow hedge reserve:					
Gains / (losses) on cash flow hedging instruments		(26)	(114)	25	(51)
Cost of hedging reserve		(76)	-	(76)	-
Foreign currency translation reserve:					
Currency adjustments on translation of foreign operations, net of hedging		15	(273)	(175)	190
Transfer to the income statement on disposal of foreign operations		(62)	(10)	(62)	-
Debt instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		(88)	25	(48)	(40)
Gains from sale transferred to the income statement		(9)	(3)	(7)	(2)
Change in loss allowance on debt instruments		5	(1)	-	5
Tax on items transferred directly to equity		38	17	37	1
Total items that will be reclassified subsequently to profit or loss		(203)	(359)	(306)	103
Other comprehensive income for the period, net of income tax		(88)	(313)	(276)	188
Total comprehensive income for the period from continuing operations		5,857	5,868	2,793	3,064
Net loss for the period from discontinued operations	14	(388)	(893)	(97)	(291)
Total comprehensive income for the period		5,469	4,975	2,696	2,773
Attributable to non-controlling interests		3	3	1	2
Total comprehensive income attributable to owners of NAB		5,466	4,972	2,695	2,771

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

Balance Sheet

		As at		
	Note	30 Sep 18 \$m	31 Mar 18 \$m	30 Sep 17 \$m
Assets				
Cash and liquid assets		50,188	44,232	43,826
Due from other banks		30,568	40,309	37,066
Trading instruments		78,228	77,687	80,091
Debt instruments		42,056	40,969	42,131
Other financial assets		10,041	13,173	16,058
Hedging derivatives		3,840	5,135	3,892
Loans and advances		567,981	550,262	540,125
Due from customers on acceptances		3,816	5,288	6,786
Property, plant and equipment		1,199	1,245	1,315
Goodwill and other intangible assets		5,787	5,607	5,601
Deferred tax assets		2,083	2,070	1,988
Other assets ⁽¹⁾		10,723	10,091	9,446
Total assets		806,510	796,068	788,325
Liabilities				
Due to other banks		38,192	35,914	36,683
Trading instruments		22,422	26,503	27,187
Other financial liabilities		30,437	29,986	29,631
Hedging derivatives		2,547	553	1,674
Deposits and other borrowings	10	503,145	502,690	500,604
Current tax liabilities		103	44	230
Provisions		2,196	2,050	1,961
Bonds, notes and subordinated debt		140,222	132,341	124,871
Other debt issues		6,158	6,159	6,187
Other liabilities		8,376	7,427	7,980
Total liabilities		753,798	743,667	737,008
Net assets		52,712	52,401	51,317
Equity				
Contributed equity	11	35,982	35,702	34,627
Reserves	11	46	331	237
Retained profits		16,673	16,357	16,442
Total equity (parent entity interest)		52,701	52,390	51,306
Non-controlling interest in controlled entities		11	11	11
Total equity		52,712	52,401	51,317

⁽¹⁾ Includes cash collateral placed with third parties, accrued interest receivable, other debt instruments at amortised cost, equity instruments at fair value through other comprehensive income and investments in associates.

Condensed Cash Flow Statement

	Note	Year to		Half Year to	
		Sep 18 \$m	Sep 17 \$m	Sep 18 \$m	Mar 18 \$m
Cash flows from operating activities					
Interest received		28,340	27,176	14,481	13,859
Interest paid		(14,778)	(14,315)	(7,492)	(7,286)
Dividends received		49	36	34	15
Income tax paid		(2,634)	(2,544)	(1,183)	(1,451)
Other cash flows from operating activities before changes in operating assets and liabilities		5,222	(6,639)	6,357	(1,135)
Changes in operating assets and liabilities		(25,395)	9,503	(20,294)	(5,101)
Net cash provided by / (used in) operating activities ⁽¹⁾		(9,196)	13,217	(8,097)	(1,099)
Net cash provided by / (used in) investing activities ⁽²⁾		(954)	(313)	(1,861)	907
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		(22,951)	(32,426)	(10,004)	(12,947)
Proceeds from issue of bonds, notes and subordinated debt		32,139	37,318	16,039	16,100
Repayments of other contributed equity		-	(400)	-	-
Repayment of other debt issues		(41)	(73)	(7)	(34)
Dividends and distributions paid (excluding dividend reinvestment plan)		(4,221)	(4,750)	(2,452)	(1,769)
Net cash provided by / (used in) financing activities		4,926	(331)	3,576	1,350
Net increase / (decrease) in cash and cash equivalents		(5,224)	12,573	(6,382)	1,158
Cash and cash equivalents at beginning of period		39,800	27,960	43,062	39,800
Effects of exchange rate changes on balance of cash held in foreign currencies		3,370	(733)	1,266	2,104
Cash and cash equivalents at end of period	12	37,946	39,800	37,946	43,062

⁽¹⁾ The year to 30 September 2018 includes cash outflows related to the Group's discontinued operations, being \$618 million (March 2018: \$618 million; September 2017: \$270 million) related to CYBG and \$33 million (March 2018: \$33 million; September 2017: \$56 million) related to the Group's life insurance business.

⁽²⁾ Net cash provided by / (used in) investing activities includes a \$342 million cash outflow (March 2018: \$342 million cash outflow; September 2017: \$49 million cash inflow) from the sale of controlled entities or businesses.

Statement of Changes in Equity

Group - Yearly

	Contributed equity ⁽¹⁾ \$m	Reserves ⁽²⁾ \$m	Retained profits \$m	Total \$m	Non- controlling interest in controlled entities \$m	Total equity \$m
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 ⁽²⁾	(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 ⁽³⁾						
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
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 ⁽³⁾						
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 11 Contributed equity and reserves.⁽²⁾ National Capital Instruments were fully redeemed on 4 October 2016.⁽³⁾ Changes in ownership interests in controlled entities that does not result in a loss of control.

Statement of Changes in Equity

Group - Half Yearly

	Contributed equity ⁽¹⁾	Reserves ⁽¹⁾	Retained profits	Total	Non- controlling interest in controlled entities	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2017	34,627	237	16,442	51,306	11	51,317
Net profit for the period from continuing operations	-	-	2,874	2,874	2	2,876
Net loss for the period from discontinued operations	-	-	(291)	(291)	-	(291)
Other comprehensive income for the period from continuing operations	-	174	14	188	-	188
Total comprehensive income for the period	-	174	2,597	2,771	2	2,773
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	914	-	-	914	-	914
Transfer from / (to) retained profits	-	1	(1)	-	-	-
Transfer from equity-based compensation reserve	161	(161)	-	-	-	-
Equity-based compensation	-	80	-	80	-	80
Dividends paid	-	-	(2,632)	(2,632)	(2)	(2,634)
Distributions on other equity instruments	-	-	(49)	(49)	-	(49)
Balance at 31 March 2018	35,702	331	16,357	52,390	11	52,401
Net profit for the period from continuing operations	-	-	3,068	3,068	1	3,069
Net loss for the period from discontinued operations	-	-	(97)	(97)	-	(97)
Other comprehensive income for the period from continuing operations	-	(317)	41	(276)	-	(276)
Total comprehensive income for the period	-	(317)	3,012	2,695	1	2,696
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	268	-	-	268	-	268
Transfer from / (to) retained profits	-	(22)	22	-	-	-
Transfer from equity-based compensation reserve	12	(12)	-	-	-	-
Equity-based compensation	-	66	-	66	-	66
Dividends paid	-	-	(2,667)	(2,667)	(2)	(2,669)
Distributions on other equity instruments	-	-	(51)	(51)	-	(51)
Changes in ownership interests ⁽²⁾						
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 11 Contributed equity and reserves.

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

Notes to the Consolidated Financial Statements

1. Basis of Preparation

This preliminary financial report (the report) for the year ended 30 September 2018 has been prepared in accordance with the Australian Securities Exchange (ASX) Listing Rules and policies of the Australian Accounting Standards Board (AASB), but does not contain all disclosures of the type normally found within the Group's 2018 Annual Financial Report and is not designed or intended to be a suitable substitute.

This report should be read in conjunction with the Group's 2017 Annual Financial Report, the 31 March 2018 half year results, any public announcements made during the year and when released, the 2018 Annual Financial Report.

Accounting policies

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

The amendment to AASB 107 *Statement of Cash Flows* will be reflected in the notes accompanying the Group's 2018 Annual Financial Report.

Apart from these changes, the Group's accounting policies are consistent with those applied in the 2017 Annual Financial Report.

The Group will adopt AASB 15 *Revenue from Contracts with Customers* effective 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.

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

Critical accounting assumptions and estimates

Preparation of this report requires use of critical accounting assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amounts of contingent liabilities. Areas involving critical assumptions and estimates include:

- 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.

Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

Rounding of amounts

In accordance with Australian Securities and Investments Commission Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, all amounts have been rounded to the nearest million dollars, except where indicated.

2. Segment Information ⁽¹⁾

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

The Group evaluates reportable segments' performance on the basis of cash earnings. Cash earnings is a non-IFRS key financial performance measure used by NAB, the investment community and NAB's Australian major bank peers with similar business portfolios. 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 September 2018 full year has been adjusted for distributions, hedging and other IFRS volatility, other non-cash items 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.

Major Customers

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

Reportable Segments

Segment information	Year ended 30 September 2018					Total
	Business and Private Banking	Consumer Banking and Wealth	Corporate and Institutional Banking	New Zealand Banking	Corporate Functions and Other ⁽²⁾	
	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	5,539	3,964	1,882	1,698	384	13,467
Other operating income ⁽³⁾	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 ⁽⁴⁾	(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 for the year from continuing operations	2,905	1,536	1,554	920	(973)	5,942
Net loss attributable to discontinued operations	-	-	-	-	(388)	(388)
Net profit 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⁾ Information is presented on a continuing operations basis.

⁽²⁾ Corporate Functions and Other includes Group Eliminations.

⁽³⁾ Includes customer-related remediation. Refer to Note 3 Other income for further information.

⁽⁴⁾ Includes restructuring-related costs and customer-related remediation. Refer to Note 4 Operating expenses for further information.

2. Segment Information (continued) ⁽¹⁾

Reportable Segments (continued)

Segment information	Year ended 30 September 2017					Total \$m
	Business and Private Banking \$m	Consumer Banking and Wealth \$m	Corporate and Institutional Banking \$m	New Zealand Banking \$m	Corporate Functions and Other ⁽²⁾ \$m	
Net interest income	5,257	3,884	1,972	1,586	467	13,166
Other operating 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 for the year from continuing operations	2,815	1,570	1,512	868	(587)	6,178
Net loss attributable to discontinued operations	-	-	-	-	(893)	(893)
Net profit 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

Segment information	Half Year ended 30 September 2018					Total \$m
	Business and Private Banking \$m	Consumer Banking and Wealth \$m	Corporate and Institutional Banking \$m	New Zealand Banking \$m	Corporate Functions and Other ⁽²⁾ \$m	
Net interest income	2,783	1,950	936	870	178	6,717
Other operating income ⁽³⁾	536	771	714	257	(111)	2,167
Net operating income	3,319	2,721	1,650	1,127	67	8,884
Operating expenses ⁽⁴⁾	(1,139)	(1,536)	(660)	(443)	(470)	(4,248)
Underlying profit	2,180	1,185	990	684	(403)	4,636
Credit impairment (charge) / write-back	(133)	(138)	36	(32)	(139)	(406)
Cash earnings / (deficit) before tax and distributions	2,047	1,047	1,026	652	(542)	4,230
Income tax (expense) / benefit	(618)	(312)	(263)	(182)	139	(1,236)
Cash earnings / (deficit) before distributions	1,429	735	763	470	(403)	2,994
Distributions	-	-	-	-	(51)	(51)
Cash earnings / (deficit)	1,429	735	763	470	(454)	2,943
Fair value and hedge ineffectiveness	(3)	2	(2)	(2)	106	101
Other non-cash earning items	-	(15)	-	-	39	24
Net profit for the year from continuing operations	1,426	722	761	468	(309)	3,068
Net loss attributable to discontinued operations	-	-	-	-	(97)	(97)
Net profit attributable to the owners of NAB	1,426	722	761	468	(406)	2,971
Reportable segment assets	199,750	228,705	263,752	79,130	35,173	806,510

⁽¹⁾ Information is presented on a continuing operations basis.⁽²⁾ Corporate Functions and Other includes Group Eliminations.⁽³⁾ Includes customer-related remediation. Refer to Note 3 Other income for further information.⁽⁴⁾ Includes customer-related remediation. Refer to Note 4 Operating expenses for further information.

2. Segment Information (continued) ⁽¹⁾

Reportable Segments (continued)

Segment information	Half Year ended 31 March 2018					Total \$m
	Business and Private Banking \$m	Consumer Banking and Wealth \$m	Corporate and Institutional Banking \$m	New Zealand Banking \$m	Corporate Functions and Other ⁽²⁾ \$m	
Net interest income	2,756	2,014	946	828	206	6,750
Other operating income	532	770	737	263	41	2,343
Net operating income	3,288	2,784	1,683	1,091	247	9,093
Operating expenses ⁽³⁾	(1,091)	(1,510)	(637)	(426)	(1,080)	(4,744)
Underlying profit	2,197	1,274	1,046	665	(833)	4,349
Credit impairment (charge) / write-back	(74)	(133)	7	(38)	(135)	(373)
Cash earnings / (deficit) before tax and distributions	2,123	1,141	1,053	627	(968)	3,976
Income tax (expense) / benefit	(641)	(337)	(275)	(175)	260	(1,168)
Cash earnings / (deficit) before distributions	1,482	804	778	452	(708)	2,808
Distributions	-	-	-	-	(49)	(49)
Cash earnings / (deficit)	1,482	804	778	452	(757)	2,759
Fair value and hedge ineffectiveness	(3)	25	15	-	44	81
Other non-cash earning items	-	(15)	-	-	49	34
Net profit for the year from continuing operations	1,479	814	793	452	(664)	2,874
Net loss attributable to discontinued operations	-	-	-	-	(291)	(291)
Net profit attributable to the owners of NAB	1,479	814	793	452	(955)	2,583
Reportable segment assets	196,180	223,416	250,117	79,048	47,307	796,068

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

⁽²⁾ Corporate Functions and Other includes Group Eliminations.

⁽³⁾ Includes restructuring-related costs. Refer to Note 4 Operating expenses for further information.

3. Other Income ⁽¹⁾

	Year to		Half Year to	
	Sep 18	Sep 17	Sep 18	Mar 18
	\$m	\$m	\$m	\$m
Gains less losses on financial instruments at fair value				
Trading instruments	743	1,314	651	92
Hedge ineffectiveness ⁽²⁾	557	(680)	94	463
Financial instruments designated at fair value	225	(225)	62	163
Other	-	143	-	-
Total gains less losses on financial instruments at fair value	1,525	552	807	718
Other operating income				
Dividend revenue	38	27	23	15
Banking fees ⁽³⁾	1,008	943	510	498
Money transfer fees	573	584	289	284
Fees and commissions ^{(3) (4)}	1,916	2,162	816	1,100
Investment management fees	312	280	158	154
Other income	224	294	135	89
Total other operating income	4,071	4,290	1,931	2,140
Total other income	5,596	4,842	2,738	2,858

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 half year.

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

⁽²⁾ Represents hedge ineffectiveness of designated hedging relationships.

⁽³⁾ March 2018 comparative has been restated to reclassify some banking fees to fees and commissions.

⁽⁴⁾ Includes customer-related remediation.

4. Operating Expenses ⁽¹⁾

	Year to		Half Year to	
	Sep 18	Sep 17	Sep 18	Mar 18
	\$m	\$m	\$m	\$m
Personnel expenses				
Salaries and related on-costs	3,345	3,252	1,673	1,672
Superannuation costs-defined contribution plans	266	258	132	134
Performance-based compensation	622	582	301	321
Other expenses ⁽²⁾	728	326	151	577
Total personnel expenses	4,961	4,418	2,257	2,704
Occupancy-related expenses				
Operating lease rental expense	451	442	226	225
Other expenses ⁽²⁾	133	85	51	82
Total occupancy-related expenses	584	527	277	307
General expenses				
Fees and commission expense	612	611	308	304
Depreciation of property, plant and equipment	304	305	151	153
Amortisation of intangible assets	476	429	268	208
Advertising and marketing	226	187	123	103
Charge to provide for operational risk event losses ⁽³⁾	295	182	202	93
Communications, postage and stationery	206	204	102	104
Computer equipment and software	657	651	326	331
Data communication and processing charges	75	80	33	42
Professional fees ⁽²⁾	799	503	379	420
Impairment losses recognised ⁽²⁾	174	20	24	150
Other expenses ⁽²⁾	541	422	276	265
Total general expenses	4,365	3,594	2,192	2,173
Total operating expenses	9,910	8,539	4,726	5,184

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 restructuring. Furthermore, the Group commenced closure of a number of branches as part of the Group's changes to its physical footprint.

In the March 2018 half year, the Group recognised restructuring-related costs of \$755 million, which comprises \$540 million of 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 half year.

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

⁽²⁾ Includes restructuring-related costs.

⁽³⁾ Includes customer-related remediation.

5. Income Tax Expense ⁽¹⁾

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

	Year to		Half Year to	
	Sep 18	Sep 17	Sep 18	Mar 18
	\$m	\$m	\$m	\$m
Profit before income tax	8,400	8,661	4,342	4,058
Prima facie income tax expense at 30%	2,520	2,598	1,303	1,217
Tax effect of permanent differences				
Assessable foreign income	7	7	4	3
Foreign tax rate differences	(38)	(43)	(18)	(20)
Foreign branch income not assessable	(61)	(78)	(30)	(31)
Over provision in prior years	(3)	(17)	-	(3)
Offshore banking unit income	(62)	(62)	(29)	(33)
Restatement of deferred tax balances for tax rate changes	-	1	(8)	8
Non-deductible hybrid distributions	72	70	36	36
Losses not tax effected	4	11	4	-
Other	16	(7)	11	5
Total income tax expense	2,455	2,480	1,273	1,182
Effective tax rate (%)	29.2%	28.6%	29.3%	29.1%

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

6. Dividends and Distributions

The Group has recognised the following dividends on ordinary shares:

	Year to			
	Sep 18		Sep 17	
	Amount per share cents	Total amount \$m	Amount per share cents	Total amount \$m
Dividends on ordinary shares				
Final dividend (in respect of prior year)	99	2,659	99	2,630
Interim dividend (in respect of current year)	99	2,696	99	2,649
Deduct: Bonus shares in lieu of dividend	n/a	(56)	n/a	(63)
Dividends paid by NAB	n/a	5,299	n/a	5,216
Add: Dividends paid to non-controlling interest in controlled entities	n/a	4	n/a	5
Total dividend paid	n/a	5,303	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	Franked amount per share %	Total amount \$m
Final dividend declared in respect of the year ended 30 September 2018	99	100	2,707

	Year to			
	Sep 18		Sep 17	
	Amount per security ⁽¹⁾ \$	Total amount \$m	Amount per security ⁽¹⁾ \$	Total amount \$m
Distributions on other equity instruments				
National Income Securities	3.02	60	3.01	60
Trust Preferred Securities ⁽²⁾	99.23	40	93.99	38
Total distributions on other equity instruments		100		98

Dividend and distribution plans

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

The last date for receipt of election notices for the Dividend Reinvestment Plan and the Bonus Share Plan is 12 November 2018 at 5pm (Australian Eastern Daylight Time).

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

⁽²⁾ \$A equivalent.

7. Loans and Advances including Acceptances

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
	\$m	\$m	\$m
Housing loans	339,540	333,758	329,534
Other term lending	209,594	199,856	197,134
Asset and lease financing	12,428	11,989	11,674
Overdrafts	5,821	5,853	5,673
Credit card outstandings	7,294	7,538	7,409
Other	6,822	6,620	6,539
Fair value adjustment	275	338	397
Gross loans and advances	581,774	565,952	558,360
Acceptances	3,816	5,288	6,786
Gross loans and advances including acceptances	585,590	571,240	565,146
<i>Represented by:</i>			
Loans and advances at fair value ⁽¹⁾	9,845	11,966	14,596
Loans and advances at amortised cost	571,929	553,986	543,764
Acceptances	3,816	5,288	6,786
Gross loans and advances including acceptances	585,590	571,240	565,146
Unearned income and deferred net fee income	(435)	(316)	(415)
Provision for credit impairment	(3,513)	(3,408)	(3,224)
Net loans and advances including acceptances	581,642	567,516	561,507
Securitised loans and loans supporting covered bonds ⁽²⁾	33,541	34,847	38,957

	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
By product and geographic location				
As at 30 September 2018				
Housing loans	303,007	36,422	111	339,540
Other term lending	161,338	36,381	11,875	209,594
Asset and lease financing	11,938	4	486	12,428
Overdrafts	3,666	2,124	31	5,821
Credit card outstandings	6,232	1,062	-	7,294
Other	4,789	455	1,578	6,822
Fair value adjustment	250	25	-	275
Gross loans and advances	491,220	76,473	14,081	581,774
Acceptances	3,816	-	-	3,816
Gross loans and advances including acceptances	495,036	76,473	14,081	585,590
<i>Represented by:</i>				
Loans and advances at fair value	7,259	2,586	-	9,845
Loans and advances at amortised cost	483,961	73,887	14,081	571,929
Acceptances	3,816	-	-	3,816
Gross loans and advances including acceptances	495,036	76,473	14,081	585,590

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

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

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

7. Loans and Advances including Acceptances (continued)

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

8. Provision for Credit Impairment on Loans at Amortised Cost

	Year to		Half Year to	
	Sep 18	Sep 17	Sep 18	Mar 18
	\$m	\$m	\$m	\$m
New and increased provisions (net of releases)	1,057	1,177	536	521
Write-backs of specific provisions	(193)	(242)	(99)	(94)
Recoveries of specific provisions	(73)	(111)	(28)	(45)
Total charge to the income statement	791	824	409	382

Movement in provision for credit impairment on loans at amortised cost

Group - Yearly

	Stage 1 12-mth expected credit losses (ECL) Collective provision \$m	Stage 2 Lifetime ECL not credit impaired Collective provision \$m	Stage 3 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-mth ECL - collective provision	329	(316)	(13)	-	-
Transferred to Lifetime ECL not credit impaired - 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-mth ECL - collective provision	296	(286)	(10)	-	-
Transferred to Lifetime ECL not credit impaired - 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

8. Provision for Credit Impairment on Loans at Amortised Cost (continued)

Movement in provision for credit impairment on loans at amortised cost

Group - Half Yearly

	Stage 1	Stage 2	Stage 3		
	12-mth ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Lifetime ECL credit impaired	
	Collective provision	Collective provision	Collective provision	Specific provision	Total
	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2017	313	1,819	403	689	3,224
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	194	(178)	(16)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(42)	109	(67)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(48)	50	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(22)	(101)	124	-
New and increased provisions (net of releases)	(128)	291	114	244	521
Write-backs of specific provisions	-	-	-	(94)	(94)
Write-offs from specific provisions	-	-	-	(256)	(256)
Foreign currency translation and other adjustments	2	7	2	2	13
Balance at 31 March 2018	336	1,978	385	709	3,408
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	213	(202)	(11)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(38)	90	(52)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(46)	48	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(22)	(80)	103	-
New and increased provisions (net of releases)	(184)	335	103	282	536
Write-backs of specific provisions	-	-	-	(99)	(99)
Write-offs from specific provisions	-	-	-	(317)	(317)
Foreign currency translation and other adjustments	-	(8)	(2)	(5)	(15)
Balance at 30 September 2018	324	2,125	391	673	3,513

9. Asset Quality

Impaired assets consist of retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days past due with security insufficient to cover principal and interest revenue, non-retail loans which are contractually 90 days past due and / or where there is sufficient doubt about the ultimate collectability of principal and interest, and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are classified as impaired loans when they become 180 days past due (if not written-off).

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
Summary of total impaired assets	\$m	\$m	\$m
Impaired assets	1,433	1,560	1,724
Restructured loans	88	49	-
Gross impaired assets ^{(1) (2)}	1,521	1,609	1,724
Specific provisions for credit impairment ⁽³⁾	(675)	(710)	(691)
Net impaired assets	846	899	1,033

	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
Movement in gross impaired assets				
Balance as at 31 March 2017	1,382	942	69	2,393
New ⁽⁴⁾	335	99	18	452
Written-off	(164)	(14)	(8)	(186)
Returned to performing, repaid or no longer impaired	(341)	(606)	(8)	(955)
Foreign currency translation adjustments	1	16	3	20
Balance as at 30 September 2017	1,213	437	74	1,724
New ⁽⁴⁾	314	155	-	469
Written-off	(72)	(14)	(5)	(91)
Returned to performing, repaid or no longer impaired	(260)	(230)	(14)	(504)
Foreign currency translation adjustments	-	8	3	11
Balance as at 31 March 2018	1,195	356	58	1,609
New ⁽⁴⁾	325	76	-	401
Written-off	(101)	(26)	(9)	(136)
Returned to performing, repaid or no longer impaired	(189)	(150)	(6)	(345)
Foreign currency translation adjustments	-	(9)	1	(8)
Gross impaired assets as at 30 September 2018	1,230	247	44	1,521

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

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
90+ days past due loans - by geographic location	\$m	\$m	\$m
Australia	2,527	2,296	2,094
New Zealand	104	113	138
Other International	17	18	13
90+ days past due loans ⁽⁵⁾	2,648	2,427	2,245

⁽¹⁾ Gross impaired assets include \$2 million (NZ\$3 million), (March 2018: \$76 million (NZ\$81 million), September 2017: \$205 million (NZ\$222 million)) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

⁽²⁾ Gross impaired assets include \$16 million (March 2018: \$19 million, September 2017: \$34 million) of gross impaired other financial assets at fair value.

⁽³⁾ Includes \$2 million (March 2018: \$1 million; September 2017: \$2 million) of specific provision on loans at fair value.

⁽⁴⁾ New gross impaired assets during the September 2018 half year include \$2 million (NZ\$3 million) (March 2018 half year \$43 million (NZ\$47 million), September 2017 half year \$9 million (NZ\$10 million)) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

⁽⁵⁾ Includes \$nil (March 2018: \$nil, September 2017: \$3 million) of 90+ days past due loans at fair value.

10. Deposits and Other Borrowings

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
	\$m	\$m	\$m
Term deposits	163,166	158,146	160,884
On-demand and short-term deposits	195,040	200,951	199,449
Certificates of deposit	43,962	46,867	52,255
Deposits not bearing interest ⁽¹⁾	50,767	49,306	47,247
Total deposits	452,935	455,270	459,835
Borrowings	27,021	27,919	21,981
Securities sold under agreements to repurchase	27,732	24,063	23,493
Fair value adjustment	2	(3)	5
Total deposits and other borrowings	507,690	507,249	505,314
<i>Represented by:</i>			
Total deposits and other borrowings at fair value	4,545	4,559	4,710
Total deposits and other borrowings at amortised cost	503,145	502,690	500,604
Total deposits and other borrowings	507,690	507,249	505,314

	Australia \$m	New Zealand \$m	Other International \$m	Total Group \$m
By product and geographic location				
As at 30 September 2018				
Term deposits	124,096	31,002	8,068	163,166
On-demand and short-term deposits	171,446	18,443	5,151	195,040
Certificates of deposit	33,953	1,646	8,363	43,962
Deposits not bearing interest ⁽¹⁾	45,463	5,294	10	50,767
Total deposits	374,958	56,385	21,592	452,935
Borrowings	24,322	1,704	995	27,021
Securities sold under agreements to repurchase	1,909	-	25,823	27,732
Fair value adjustment	-	2	-	2
Total deposits and other borrowings	401,189	58,091	48,410	507,690
<i>Represented by:</i>				
Total deposits and other borrowings at fair value	-	4,545	-	4,545
Total deposits and other borrowings at amortised cost	401,189	53,546	48,410	503,145
Total deposits and other borrowings	401,189	58,091	48,410	507,690

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

⁽¹⁾ Deposits not bearing interest include mortgage offset accounts.

10. Deposits and Other Borrowings (continued)

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

⁽¹⁾ Deposits not bearing interest include mortgage offset accounts.

11. Contributed Equity and Reserves

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
	\$m	\$m	\$m
Contributed equity			
Issued and paid-up ordinary share capital			
Ordinary shares, fully paid	33,062	32,782	31,707
Other contributed equity			
National Income Securities	1,945	1,945	1,945
Trust Preferred Securities	975	975	975
Total contributed equity	35,982	35,702	34,627

	Year to		Half Year to	
	Sep 18	Sep 17	Sep 18	Mar 18
	\$m	\$m	\$m	\$m
Movement in issued and paid-up ordinary share capital				
Balance at beginning of period	31,707	30,968	32,782	31,707
Shares issued:				
Dividend reinvestment plan	1,182	569	268	914
Transfer from equity-based compensation reserve	173	170	12	161
Balance at end of period	33,062	31,707	33,062	32,782

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
	\$m	\$m	\$m
Reserves			
Foreign currency translation reserve	(343)	(109)	(338)
Asset revaluation reserve	82	83	83
Cash flow hedge reserve	10	(6)	46
Cost of hedging reserve	(53)	-	-
Equity-based compensation reserve	243	191	273
Debt instruments at fair value through other comprehensive income reserve	22	61	89
Equity instruments at fair value through other comprehensive income reserve	85	111	84
Total reserves	46	331	237

12. Notes to the Condensed Cash Flow Statement

(a) Reconciliation of cash and cash equivalents

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

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

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
	\$m	\$m	\$m
Cash and cash equivalents			
Assets			
Cash and liquid assets	50,188	44,232	43,826
Treasury and other eligible bills	672	379	762
Due from other banks (excluding mandatory deposits with supervisory central banks)	24,372	34,212	31,703
Total cash and cash equivalents assets	75,232	78,823	76,291
Liabilities			
Due to other banks	(37,286)	(35,761)	(36,491)
Total cash and cash equivalents	37,946	43,062	39,800

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 March 2018 was the cash deposit of \$263 million (£148 million), September 2017 \$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 13 Contingent liabilities*.

(b) Non-cash financing and investing transactions

	Year to		Half Year to	
	Sep 18	Sep 17	Sep 18	Mar 18
	\$m	\$m	\$m	\$m
New share issues				
Dividend reinvestment plan	1,182	569	268	914
New debt issues				
Subordinated medium-term notes reinvestment offer	-	539	-	-

(c) Disposal of businesses

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

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

13. Contingent Liabilities

(i) 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.

Further information on some specific contingent liabilities that may impact the Group is set out below.

(ii) 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.

(iii) 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.

13. Contingent Liabilities (continued)

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 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.

13. Contingent Liabilities (continued)

(iv) 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.

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.

14. Discontinued Operations

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 relate to 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 13 Contingent liabilities* for further information.

Analysis of loss for the year from discontinued operations

	Year to	
	Sep 18	Sep 17
	\$m	\$m
Total discontinued operations		
Net loss from life insurance business discontinued operation	(97)	-
Net loss from CYBG discontinued operation	(291)	(893)
Net loss from discontinued operations	(388)	(893)

15. 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.

Compliance Statement

The preliminary final report for the year ended 30 September 2018 is prepared:

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

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



Penny MacRae
Company Secretary
1 November 2018

Section 6

Supplementary Information

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1. Australian Banking and Wealth

	Year to			Half Year to			
	Sep 18	Sep 17	Sep 18 v	Sep 18	Mar 18	Sep 18 v	
	\$m	\$m	Sep 17 %	\$m	\$m	Mar 18 %	
Net interest income							
Housing lending	3,450	3,458	(0.2)	1,663	1,787	(6.9)	
Business lending	3,588	3,409	5.3	1,825	1,763	3.5	
Other banking products	938	972	(3.5)	464	474	(2.1)	
Deposits	3,333	3,051	9.2	1,696	1,637	3.6	
NAB risk management	76	223	(65.9)	21	55	(61.8)	
Total net interest income	11,385	11,113	2.4	5,669	5,716	(0.8)	
Other operating income							
Housing lending	245	259	(5.4)	126	119	5.9	
Business lending	701	638	9.9	336	365	(7.9)	
Other banking products	902	898	0.4	454	448	1.3	
Deposits	57	64	(10.9)	27	30	(10.0)	
Customer risk management	651	612	6.4	321	330	(2.7)	
NAB risk management	384	392	(2.0)	211	173	22.0	
Wealth income	1,112	1,148	(3.1)	543	569	(4.6)	
Total other operating income	4,052	4,011	1.0	2,018	2,034	(0.8)	
Credit impairment charge							
Specific credit impairment charge	440	659	(33.2)	230	210	9.5	
Collective credit impairment charge / (write-back)	(5)	(175)	(97.1)	5	(10)	large	
Total credit impairment charge	435	484	(10.1)	235	200	17.5	
Provision for credit impairment							
Housing lending	94	59	59.3	47	47	-	
Business lending	83	164	(49.4)	55	28	96.4	
Other banking products	258	261	(1.1)	133	125	6.4	
Total credit impairment charge	435	484	(10.1)	235	200	17.5	
Net interest margin							
Housing lending net interest margin	1.28%	1.32%	(4 bps)	1.22%	1.34%	(12 bps)	
Business lending net interest margin	1.90%	1.87%	3 bps	1.90%	1.90%	-	
Volumes (\$bn)							
Housing lending	303.1	295.1	2.7	303.1	297.8	1.8	
Business lending	196.3	185.7	5.7	196.3	187.4	4.7	
Other lending	10.3	10.3	-	10.3	10.5	(1.9)	
Gross loans and acceptances	509.7	491.1	3.8	509.7	495.7	2.8	
Customer deposits	351.1	343.3	2.3	351.1	340.8	3.0	
Market share							
	As at				As at		
Market share	30 Sep 18	31 Mar 18	30 Sep 17	Distribution	30 Sep 18	31 Mar 18	30 Sep 17
Business lending ⁽¹⁾	20.9%	21.1%	21.4%	Number of branches and business banking centres	719	774	796
Business lending ⁽²⁾	20.1%	20.1%	20.4%	Number of ATMs ⁽³⁾	2,695	2,869	2,934
Business deposits ⁽¹⁾	19.6%	19.1%	19.5%	Number of internet banking customers (million)	4.28	4.07	4.00
Housing lending ⁽¹⁾	15.4%	15.4%	15.5%				
Household deposits ⁽¹⁾	14.1%	14.2%	14.2%				

⁽¹⁾ Source: APRA Monthly Banking Statistics.⁽²⁾ Source: RBA Financial System.⁽³⁾ Number of ATMs includes RediATMs.

1. Australian Banking and Wealth (continued)

Funds Under Management and Administration (FUM/A) and Assets Under Management (AUM) ⁽¹⁾

Movement in FUM/A (\$m) ⁽²⁾	As at Sep 17	Inflows	Outflows	Netflows	Investment earnings	Other ⁽³⁾	As at Sep 18	Sep 18 v Sep 17
Retail	58,001	6,105	(8,092)	(1,987)	4,684	-	60,698	4.6
Offsale Products	8,643	225	(1,183)	(958)	734	-	8,419	(2.6)
Business & Corporate Superannuation	46,291	5,316	(5,891)	(575)	4,312	-	50,028	8.1
JBWere	20,865	5,926	(3,001)	2,925	1,748	-	25,538	22.4
Total	133,800	17,572	(18,167)	(595)	11,478	-	144,683	8.1

Movement in AUM (\$m) ⁽⁴⁾								
Portfolio Management	138,677	11,462	(15,776)	(4,314)	10,477	1,880	146,720	5.8
Investment Management	56,581	23,028	(22,813)	215	2,906	282	59,984	6.0
Total	195,258	34,490	(38,589)	(4,099)	13,383	2,162	206,704	5.9

Movement in FUM/A (\$m) ⁽²⁾	As at Mar 18	Inflows	Outflows	Netflows	Investment earnings	Other ⁽³⁾	As at Sep 18	Sep 18 v Mar 18
Retail	59,206	3,134	(4,678)	(1,544)	3,036	-	60,698	2.5
Offsale Products	8,473	135	(670)	(535)	481	-	8,419	(0.6)
Business & Corporate Superannuation	48,411	2,964	(3,444)	(480)	2,097	-	50,028	3.3
JBWere	23,440	3,579	(2,016)	1,563	535	-	25,538	9.0
Total	139,530	9,812	(10,808)	(996)	6,149	-	144,683	3.7

Movement in AUM (\$m) ⁽⁴⁾								
Portfolio Management	141,483	5,934	(8,343)	(2,409)	6,583	1,063	146,720	3.7
Investment Management	57,826	10,929	(10,179)	750	1,408	-	59,984	3.7
Total	199,309	16,863	(18,522)	(1,659)	7,991	1,063	206,704	3.7

⁽¹⁾ FUM/A and AUM are presented in two separate disclosures that represent all managed funds and assets from which the Group derives revenue. Certain items will be represented in both FUM/A and AUM meaning the two should not be summed.

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

⁽³⁾ Other includes rebates and parameter changes in unit pricing.

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

2. Loans and Advances by Industry and Geography

	Australia \$m	New Zealand \$m	Other International \$m	Total \$m
As at 30 September 2018				
Real estate - mortgage	303,007	36,422	111	339,540
Other commercial and industrial	59,132	9,523	5,499	74,154
Commercial property services	60,720	8,646	342	69,708
Agriculture, forestry, fishing and mining	23,269	14,475	82	37,826
Financial, investment and insurance	17,159	1,643	7,103	25,905
Asset and lease financing	11,938	4	486	12,428
Instalment loans to individuals and other personal lending (including credit cards)	9,203	1,392	13	10,608
Manufacturing	7,173	3,128	236	10,537
Real estate - construction	1,602	1,043	168	2,813
Government and public authorities	1,833	197	41	2,071
Gross loans and advances including acceptances ⁽¹⁾	495,036	76,473	14,081	585,590
Deduct:				
Unearned income and deferred net fee income	(434)	67	(68)	(435)
Provision for credit impairment	(2,920)	(537)	(56)	(3,513)
Total net loans and advances including acceptances	491,682	76,003	13,957	581,642

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

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

⁽¹⁾ Includes loans at fair value.

3. Average Balance Sheet and Related Interest ⁽¹⁾

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

Average assets and interest income

	Year ended Sep 18			Year ended Sep 17		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
Average interest earning assets						
Due from other banks						
Australia	14,314	191	1.3	12,150	191	1.6
New Zealand	4,606	79	1.7	3,073	45	1.5
Other International	23,710	364	1.5	34,269	354	1.0
Total due from other banks	42,630	634	1.5	49,492	590	1.2
Marketable debt securities						
Australia	76,455	1,911	2.5	73,300	1,980	2.7
New Zealand	5,582	118	2.1	5,477	124	2.3
Other International	11,095	117	1.1	12,304	122	1.0
Total marketable debt securities	93,132	2,146	2.3	91,081	2,226	2.4
Loans and advances - housing						
Australia	269,581	11,613	4.3	259,184	11,213	4.3
New Zealand	33,684	1,601	4.8	32,446	1,581	4.9
Other International	393	15	3.8	2,207	71	3.2
Total loans and advances - housing	303,658	13,229	4.4	293,837	12,865	4.4
Loans and advances - non-housing						
Australia	185,790	9,258	5.0	181,816	8,846	4.9
New Zealand	39,358	1,884	4.8	38,436	1,775	4.6
Other International	12,634	354	2.8	10,702	263	2.5
Total loans and advances - non-housing	237,782	11,496	4.8	230,954	10,884	4.7
Other interest earning assets						
Australia	3,352	244	n/a	5,473	294	n/a
New Zealand	461	26	n/a	965	59	n/a
Other International	45,642	768	n/a	39,463	485	n/a
Total other interest earning assets	49,455	1,038	n/a	45,901	838	n/a
Total average interest earning assets and interest income by:						
Australia	549,492	23,217	4.2	531,923	22,524	4.2
New Zealand	83,691	3,708	4.4	80,397	3,584	4.5
Other International	93,474	1,618	1.7	98,945	1,295	1.3
Total average interest earning assets and interest income	726,657	28,543	3.9	711,265	27,403	3.9

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

3. Average Balance Sheet and Related Interest (continued)⁽¹⁾

Average assets and interest income

	Year ended	
	Sep 18 \$m	Sep 17 \$m
Average non-interest earning assets		
Investments relating to life insurance business		
New Zealand	86	81
Total investments relating to life insurance business	86	81
Other assets	83,582	90,485
Total average non-interest earning assets	83,668	90,566
Provision for credit impairment		
Australia	(2,686)	(2,501)
New Zealand	(530)	(484)
Other International	(72)	(72)
Total provision for credit impairment	(3,288)	(3,057)
Total average assets	807,037	798,774

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

3. Average Balance Sheet and Related Interest (continued)⁽¹⁾

Average liabilities and interest expense

	Year ended Sep 18			Year ended Sep 17		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
Average interest bearing liabilities						
Due to other banks						
Australia	25,255	381	1.5	25,611	394	1.5
New Zealand	2,305	21	0.9	2,044	17	0.8
Other International	15,594	203	1.3	18,638	148	0.8
Total due to other banks	43,154	605	1.4	46,293	559	1.2
On-demand and short-term deposits						
Australia	169,765	2,167	1.3	162,076	2,124	1.3
New Zealand	18,750	154	0.8	18,391	162	0.9
Other International	10,785	144	1.3	14,940	110	0.7
Total on-demand and short-term deposits	199,300	2,465	1.2	195,407	2,396	1.2
Certificates of deposit						
Australia	35,870	707	2.0	36,714	719	2.0
New Zealand	1,722	34	2.0	1,912	37	1.9
Other International	9,680	149	1.5	11,594	146	1.3
Total certificates of deposit	47,272	890	1.9	50,220	902	1.8
Term deposits						
Australia	120,488	3,042	2.5	118,870	3,117	2.6
New Zealand	30,985	1,061	3.4	27,905	942	3.4
Other International	7,990	158	2.0	11,854	176	1.5
Total term deposits	159,463	4,261	2.7	158,629	4,235	2.7
Other borrowings						
Australia	24,863	564	2.3	17,938	330	1.8
New Zealand	2,018	45	2.2	3,121	53	1.7
Other International	27,599	600	2.2	23,149	313	1.4
Total other borrowings	54,480	1,209	2.2	44,208	696	1.6
Bonds, notes and subordinated debt						
Australia	115,462	3,527	3.1	112,911	3,434	3.0
New Zealand	19,280	546	2.8	17,723	635	3.6
Other International	19,237	485	2.5	16,272	395	2.4
Total bonds, notes and subordinated debt	153,979	4,558	3.0	146,906	4,464	3.0
Other interest bearing liabilities						
Australia	6,304	968	n/a	5,883	894	n/a
Other International	567	82	n/a	1,517	75	n/a
Total other interest bearing liabilities	6,871	1,050	n/a	7,400	969	n/a
Total average interest bearing liabilities and interest expense by:						
Australia	498,007	11,356	2.3	480,003	11,012	2.3
New Zealand	75,060	1,861	2.5	71,096	1,846	2.6
Other International	91,452	1,821	2.0	97,964	1,363	1.4
Total average interest bearing liabilities and interest expense	664,519	15,038	2.3	649,063	14,221	2.2

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

3. Average Balance Sheet and Related Interest (continued)⁽¹⁾

Average liabilities and equity

	Year ended	
	Sep 18 \$m	Sep 17 \$m
Average non-interest bearing liabilities		
Deposits not bearing interest		
Australia	44,226	40,011
New Zealand	5,013	4,521
Other International	10	16
Total deposits not bearing interest	49,249	44,548
Other liabilities	41,633	54,689
Total average non-interest bearing liabilities	90,882	99,237
Total average liabilities	755,401	748,300
Average equity		
Total equity (parent entity interest)	51,625	50,458
Non-controlling interest in controlled entities	11	16
Total average equity	51,636	50,474
Total average liabilities and equity	807,037	798,774

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

3. Average Balance Sheet and Related Interest (continued)⁽¹⁾

Average assets and interest income

	Half Year ended Sep 18			Half Year ended Mar 18		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
Average interest earning assets						
Due from other banks						
Australia	16,705	112	1.3	11,911	79	1.3
New Zealand	4,650	43	1.8	4,562	36	1.6
Other International	19,075	155	1.6	28,370	209	1.5
Total due from other banks	40,430	310	1.5	44,843	324	1.4
Marketable debt securities						
Australia	76,644	894	2.3	76,265	1,017	2.7
New Zealand	5,644	61	2.2	5,519	57	2.1
Other International	10,855	61	1.1	11,337	56	1.0
Total marketable debt securities	93,143	1,016	2.2	93,121	1,130	2.4
Loans and advances - housing						
Australia	271,724	5,825	4.3	267,426	5,788	4.3
New Zealand	34,317	811	4.7	33,047	790	4.8
Other International	130	3	4.6	658	12	3.7
Total loans and advances - housing	306,171	6,639	4.3	301,131	6,590	4.4
Loans and advances - non-housing						
Australia	187,582	4,755	5.1	183,985	4,503	4.9
New Zealand	39,709	952	4.8	39,006	932	4.8
Other International	13,107	196	3.0	12,159	158	2.6
Total loans and advances - non-housing	240,398	5,903	4.9	235,150	5,593	4.8
Other interest earning assets						
Australia	2,194	114	n/a	4,496	130	n/a
New Zealand	461	8	n/a	461	18	n/a
Other International	45,449	460	n/a	45,858	308	n/a
Total other interest earning assets	48,104	582	n/a	50,815	456	n/a
Total average interest earning assets and interest income by:						
Australia	554,849	11,700	4.2	544,083	11,517	4.2
New Zealand	84,781	1,875	4.4	82,595	1,833	4.5
Other International	88,616	875	2.0	98,382	743	1.5
Total average interest earning assets and interest income	728,246	14,450	4.0	725,060	14,093	3.9

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

3. Average Balance Sheet and Related Interest (continued)⁽¹⁾

Average assets and interest income

	Half Year ended	
	Sep 18 \$m	Mar 18 \$m
Average non-interest earning assets		
Investments relating to life insurance business		
New Zealand	89	80
Total investments relating to life insurance business	89	80
Other assets	81,888	85,371
Total average non-interest earning assets	81,977	85,451
Provision for credit impairment		
Australia	(2,744)	(2,626)
New Zealand	(552)	(509)
Other International	(82)	(63)
Total provision for credit impairment	(3,378)	(3,198)
Total average assets	806,845	807,313

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

3. Average Balance Sheet and Related Interest (continued)⁽¹⁾

Average liabilities and interest expense

	Half Year ended Sep 18			Half Year ended Mar 18		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
	\$m	\$m	%	\$m	\$m	%
Average interest bearing liabilities						
Due to other banks						
Australia	24,537	182	1.5	25,978	199	1.5
New Zealand	2,553	13	1.0	2,055	8	0.8
Other International	13,759	111	1.6	17,438	92	1.1
Total due to other banks	40,849	306	1.5	45,471	299	1.3
On-demand and short-term deposits						
Australia	170,792	1,100	1.3	168,731	1,067	1.3
New Zealand	18,992	79	0.8	18,507	75	0.8
Other International	6,932	56	1.6	14,660	88	1.2
Total on-demand and short-term deposits	196,716	1,235	1.3	201,898	1,230	1.2
Certificates of deposit						
Australia	35,599	368	2.1	36,141	339	1.9
New Zealand	2,084	21	2.0	1,359	13	1.9
Other International	8,820	71	1.6	10,545	78	1.5
Total certificates of deposit	46,503	460	2.0	48,045	430	1.8
Term deposits						
Australia	120,700	1,550	2.6	120,276	1,492	2.5
New Zealand	31,212	532	3.4	30,756	529	3.4
Other International	8,288	92	2.2	7,691	66	1.7
Total term deposits	160,200	2,174	2.7	158,723	2,087	2.6
Other borrowings						
Australia	25,305	328	2.6	24,418	236	1.9
New Zealand	2,123	27	2.5	1,911	18	1.9
Other International	28,134	358	2.5	27,061	242	1.8
Total other borrowings	55,562	713	2.6	53,390	496	1.9
Bonds, notes and subordinated debt						
Australia	118,337	1,862	3.1	112,570	1,665	3.0
New Zealand	19,268	260	2.7	19,292	286	3.0
Other International	20,219	259	2.6	18,251	226	2.5
Total bonds, notes and subordinated debt	157,824	2,381	3.0	150,113	2,177	2.9
Other interest bearing liabilities						
Australia	6,647	387	n/a	5,963	581	n/a
Other International	277	55	n/a	857	27	n/a
Total other interest bearing liabilities	6,924	442	n/a	6,820	608	n/a
Total average interest bearing liabilities and interest expense by:						
Australia	501,917	5,777	2.3	494,077	5,579	2.3
New Zealand	76,232	932	2.4	73,880	929	2.5
Other International	86,429	1,002	2.3	96,503	819	1.7
Total average interest bearing liabilities and interest expense	664,578	7,711	2.3	664,460	7,327	2.2

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

3. Average Balance Sheet and Related Interest (continued)⁽¹⁾

Average liabilities and equity

	Half Year ended	
	Sep 18 \$m	Mar 18 \$m
Average non-interest bearing liabilities		
Deposits not bearing interest		
Australia	44,784	43,665
New Zealand	5,166	4,854
Other International	9	11
Total deposits not bearing interest	49,959	48,530
Other liabilities	40,476	42,812
Total average non-interest bearing liabilities	90,435	91,342
Total average liabilities	755,013	755,802
Average equity		
Total equity (parent entity interest)	51,821	51,500
Non-controlling interest in controlled entities	11	11
Total average equity	51,832	51,511
Total average liabilities and equity	806,845	807,313

4. Net Interest Margins and Spreads^{(1) (2)}

Group	Year to			Half Year to		
	Sep 18 %	Sep 17 %	Sep 18 v Sep 17	Sep 18 %	Mar 18 %	Sep 18 v Mar 18
Net interest spread	1.66	1.66	-	1.64	1.69	(5 bps)
Benefit of net free liabilities, provisions and equity	0.20	0.19	1 bp	0.21	0.18	3 bps
Net interest margin - statutory basis	1.86	1.85	1 bp	1.85	1.87	(2 bps)

⁽¹⁾ Information is presented on a continuing operations basis.⁽²⁾ Information is presented on a statutory basis, compared to Section 3 Net interest margin which is prepared on a cash earnings basis.

5. Capital Adequacy

The tables below show the APRA Basel III capital adequacy calculation. The first table below is a reconciliation from total equity per the Group's balance sheet to capital for regulatory purposes, including Common Equity Tier 1 capital, Tier 1 capital and Total capital. Capital for regulatory purposes is based on the Level 2 regulatory group which comprises National Australia Bank Limited and the entities it controls, excluding superannuation and funds management entities and securitisation special purposes vehicles to which assets have been transferred in accordance with the requirements for regulatory capital relief.

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
	\$m	\$m	\$m
Contributed equity	35,982	35,702	34,627
Reserves	46	331	237
Retained profits	16,673	16,357	16,442
Non-controlling interest in controlled entities	11	11	11
Total equity per consolidated balance sheet	52,712	52,401	51,317
Additional Tier 1 capital classified as equity before application of Basel III transitional arrangements	(2,920)	(2,919)	(2,919)
Non-controlling interest in controlled entities	(11)	(11)	(11)
Treasury shares	-	-	6
Deconsolidation of superannuation and funds management entities	(292)	(272)	(240)
Common Equity Tier 1 capital before regulatory adjustments	49,489	49,199	48,153
Goodwill and other intangible assets, net of tax (excluding superannuation and funds management entities)	(2,863)	(2,865)	(2,865)
Superannuation and funds management goodwill and other intangible assets, net of tax	(10)	(12)	(13)
Investment in non-consolidated controlled entities (adjusted for goodwill and other intangible assets)	(421)	(459)	(478)
Deferred tax assets in excess of deferred tax liabilities	(1,746)	(1,875)	(1,654)
Capitalised expenses and deferred fee income	(741)	(596)	(570)
Software	(2,895)	(2,713)	(2,705)
Defined benefit superannuation plan asset, net of tax	(34)	(30)	(29)
Change in own creditworthiness	135	183	199
Cash flow hedge reserve	(10)	6	(46)
Equity exposures	(988)	(1,016)	(982)
Expected loss in excess of eligible provisions	(87)	(183)	(170)
Other ⁽¹⁾	(70)	(84)	(415)
Common Equity Tier 1 capital	39,759	39,555	38,425
Transitional Additional Tier 1 capital instruments	2,422	2,422	2,920
Basel III eligible Additional Tier 1 capital instruments	6,073	6,073	6,073
Regulatory adjustments to Additional Tier 1 capital	-	(2)	(1)
Additional Tier 1 capital	8,495	8,493	8,992
Tier 1 capital	48,254	48,048	47,417
Collective provision for credit impairment - Standardised approach	66	59	59
Transitional Tier 2 capital instruments	1,119	2,249	2,811
Basel III eligible Tier 2 capital instruments	5,227	5,198	5,076
Eligible Tier 2 capital for non-controlling interest	426	453	436
Regulatory adjustments to Tier 2 capital	(84)	(108)	(92)
Tier 2 capital	6,754	7,851	8,290
Total capital	55,008	55,899	55,707
Risk-weighted assets			
Credit risk	331,381	329,882	325,969
Market risk	9,460	8,656	7,766
Operational risk	37,500	39,027	37,575
Interest rate risk in the banking book	11,343	9,850	10,804
Total risk-weighted assets	389,684	387,415	382,114
Risk-based regulatory capital ratios			
Common Equity Tier 1	10.20%	10.21%	10.06%
Tier 1	12.38%	12.40%	12.41%
Total capital	14.12%	14.43%	14.58%

⁽¹⁾ Prior periods include a deduction for the remaining support available to CYBG under the Conduct Indemnity Deed, net of conduct provisions.

5. Capital Adequacy (continued)

	Risk-Weighted Assets as at		
	30 Sep 18 \$m	31 Mar 18 \$m	30 Sep 17 \$m
Credit risk ⁽¹⁾			
Subject to the internal ratings based (IRB) approach			
Corporate (including Small and Medium Enterprises (SME)) ⁽²⁾	116,709	115,478	115,831
Sovereign	1,293	1,291	1,306
Bank	10,042	10,751	10,998
Residential mortgage ⁽³⁾	103,868	102,448	100,741
Qualifying revolving retail	3,993	4,124	4,062
Retail SME	6,531	6,573	5,949
Other retail	3,419	3,517	3,484
Total IRB approach	245,855	244,182	242,371
Specialised lending	60,444	59,899	58,902
Subject to standardised approach			
Residential mortgage	1,558	1,623	2,414
Corporate	4,670	4,436	4,462
Other	493	513	521
Total standardised approach	6,721	6,572	7,397
Other			
Securitisation exposures	4,598	4,313	3,380
Credit value adjustment	7,670	8,958	9,001
Central counterparty default fund contribution guarantee	1,138	1,029	1,005
Other ⁽⁴⁾	4,955	4,929	3,913
Total other	18,361	19,229	17,299
Total credit risk	331,381	329,882	325,969
Market risk	9,460	8,656	7,766
Operational risk	37,500	39,027	37,575
Interest rate risk in the banking book	11,343	9,850	10,804
Total risk-weighted assets	389,684	387,415	382,114

⁽¹⁾ Assets that are not subject to specific risk weights incorporate a scaling factor of 1.06 in accordance with APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk.

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

⁽³⁾ The uplift in residential mortgage risk-weighted assets from 30 September 2017 to 31 March 2018 was primarily driven by an IRB model change.

⁽⁴⁾ Other includes non-lending asset exposures and as at 30 September 2018 and 31 March 2018 an RBNZ overlay adjustments for the New Zealand agriculture portfolio.

6. Earnings Per Share

Earnings per share	Year to			
	Basic		Diluted	
	Sep 18	Sep 17	Sep 18	Sep 17
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 period from discontinued operations	(388)	(893)	(388)	(893)
Adjusted earnings from continuing operations	5,842	6,080	6,092	6,325
Weighted average 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	Half Year to			
	Basic		Diluted	
	Sep 18	Mar 18	Sep 18	Mar 18
Earnings (\$m)				
Net profit attributable to owners of NAB	2,971	2,583	2,971	2,583
Distributions on other equity instruments	(51)	(49)	(51)	(49)
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	-	-	66	62
Interest expense on convertible preference shares	-	-	63	59
Adjusted earnings	2,920	2,534	3,049	2,655
Net loss after tax for the period from discontinued operations	(97)	(291)	(97)	(291)
Adjusted earnings from continuing operations	3,017	2,825	3,146	2,946
Weighted average ordinary shares (no. '000)				
Weighted average ordinary shares (net of treasury shares)	2,720,189	2,699,116	2,720,189	2,699,116
Potential dilutive weighted average ordinary shares				
Performance rights	-	-	4,307	4,221
Partly paid ordinary shares	-	-	16	27
Employee share plans	-	-	4,227	4,517
Convertible notes	-	-	103,561	97,252
Convertible preference shares	-	-	117,767	110,593
Total weighted average ordinary shares	2,720,189	2,699,116	2,950,067	2,915,726
Earnings per share (cents) attributable to owners of NAB	107.3	93.9	103.4	91.1
Earnings per share (cents) from continuing operations	110.9	104.7	106.6	101.0

6. Earnings Per Share (continued)

	Year to			
	Basic		Diluted	
Cash earnings per share	Sep 18	Sep 17	Sep 18	Sep 17
Earnings (\$m)				
Cash earnings ⁽¹⁾	5,702	6,642	5,702	6,642
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	-	-	128	126
Interest expense on convertible preference shares	-	-	122	119
Adjusted cash earnings	5,702	6,642	5,952	6,887
Weighted average 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	210.4	249.3	202.4	239.7

	Half Year to			
	Basic		Diluted	
Cash earnings per share	Sep 18	Mar 18	Sep 18	Mar 18
Earnings (\$m)				
Cash earnings ⁽¹⁾	2,943	2,759	2,943	2,759
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	-	-	66	62
Interest expense on convertible preference shares	-	-	63	59
Adjusted cash earnings	2,943	2,759	3,072	2,880
Weighted average ordinary shares (no. '000)				
Weighted average ordinary shares (net of treasury shares)	2,720,189	2,699,116	2,720,189	2,699,116
Potential dilutive weighted average ordinary shares				
Performance rights	-	-	4,307	4,221
Partly paid ordinary shares	-	-	16	27
Employee share plans	-	-	4,227	4,517
Convertible notes	-	-	103,561	97,252
Convertible preference shares	-	-	117,767	110,593
Total weighted average ordinary shares	2,720,189	2,699,116	2,950,067	2,915,726
Earnings per share (cents) attributable to owners of NAB	108.2	102.2	104.1	98.8

7. Net Tangible Assets

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
Net tangible assets per ordinary share (\$) ⁽²⁾	16.09	16.11	15.93

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

⁽²⁾ Represents net assets excluding intangible assets, non-controlling interests, preference shares and other equity instruments divided by ordinary shares on issue at the end of the period.

8. Asset Funding ⁽¹⁾

	As at			Sep 18 v Sep 17 %	Sep 18 v Mar 18 %
	30 Sep 18 \$m	31 Mar 18 \$m	30 Sep 17 \$m		
Core assets					
Loans and advances at amortised cost	571,929	553,986	543,764	5.2	3.2
Loans and advances at fair value	9,845	11,966	14,596	(32.6)	(17.7)
Other financial assets at fair value	-	-	46	large	-
Acceptances	3,816	5,288	6,786	(43.8)	(27.8)
Other debt instruments at amortised cost	374	396	584	(36.0)	(5.6)
Total core assets	585,964	571,636	565,776	3.6	2.5
Funding and equity					
Customer deposits	408,974	408,404	407,585	0.3	0.1
Term wholesale funding	168,718	159,595	155,430	8.5	5.7
Certificates of deposit	43,962	46,867	52,255	(15.9)	(6.2)
Securities sold under agreements to repurchase	27,732	24,063	23,493	18.0	15.2
Due to other banks ⁽²⁾	38,192	35,914	36,683	4.1	6.3
Other short term liabilities	33,521	35,161	25,448	31.7	(4.7)
Total equity excluding preference shares and other contributed equity	49,793	49,482	48,398	2.9	0.6
Total funding liabilities and equity	770,892	759,486	749,292	2.9	1.5
Other liabilities					
Trading instruments	22,422	26,503	27,187	(17.5)	(15.4)
Hedging derivatives	2,547	553	1,674	52.2	large
Other liabilities	10,649	9,526	10,172	4.7	11.8
Total liabilities and equity	806,510	796,068	788,325	2.3	1.3

Funded Balance Sheet

	As at			Sep 18 v Sep 17 %	Sep 18 v Mar 18 %
	30 Sep 18 \$m	31 Mar 18 \$m	30 Sep 17 \$m		
Funding sources ⁽³⁾					
Stable customer deposits ⁽⁴⁾	370,723	368,992	360,234	2.9	0.5
Term funding greater than 12 months	140,882	133,556	133,857	5.2	5.5
Equity	49,793	49,482	48,398	2.9	0.6
Total stable funding	561,398	552,030	542,489	3.5	1.7
Short term wholesale funding	102,801	103,299	98,457	4.4	(0.5)
Term funding less than 12 months	27,836	26,039	21,573	29.0	6.9
Other deposits ⁽⁵⁾	38,251	39,412	47,351	(19.2)	(2.9)
Total funding	730,286	720,780	709,870	2.9	1.3
Funded assets					
Liquid assets ⁽⁶⁾	110,540	112,683	107,904	2.4	(1.9)
Other short term assets ⁽⁷⁾	29,707	27,437	31,060	(4.4)	8.3
Total short term assets	140,247	140,120	138,964	0.9	0.1
Business and other lending ⁽⁸⁾	241,240	232,837	231,203	4.3	3.6
Housing lending	339,540	333,758	329,534	3.0	1.7
Other assets ⁽⁹⁾	9,259	14,065	10,169	(8.9)	(34.2)
Total long term assets	590,039	580,660	570,906	3.4	1.6
Total funded assets	730,286	720,780	709,870	2.9	1.3

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

⁽²⁾ Includes repurchase agreements due to other banks.

⁽³⁾ Excludes repurchase agreements, trading and hedging derivatives, insurance assets and liabilities and any accruals, receivables and payables that do not provide net funding.

⁽⁴⁾ Includes operational deposits, non-financial corporate deposits and retail / SME deposits. Excludes certain offshore deposits.

⁽⁵⁾ Includes non-operational financial institution deposits and certain offshore deposits.

⁽⁶⁾ Regulatory liquid assets including HQLA and CLF eligible assets.

⁽⁷⁾ Includes non-repo eligible liquid assets and trade finance loans.

⁽⁸⁾ Excludes trade finance loans.

⁽⁹⁾ Includes net derivatives, goodwill, property, plant and equipment and net of accruals, receivables and payables.

9. Number of Ordinary Shares

	Year to	
	Sep 18 No. '000	Sep 17 No. '000
Ordinary shares, fully paid		
Balance at beginning of period	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 period	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

	Half Year to	
	Sep 18 No. '000	Mar 18 No. '000
Ordinary shares, fully paid		
Balance at beginning of period	2,722,926	2,685,469
Shares issued:		
Dividend reinvestment plan	9,927	30,876
Bonus share plan	1,094	890
Employee share plans	147	4,712
Performance rights	11	975
Paying up of partly paid shares	14	4
Total ordinary shares, fully paid	2,734,119	2,722,926
Ordinary shares, partly paid to 25 cents		
Balance at beginning of period	39	43
Paying up of partly paid shares	(14)	(4)
Total ordinary shares, partly paid to 25 cents	25	39
Total ordinary shares (including treasury shares)	2,734,144	2,722,965
Less: Treasury shares	(7,800)	(8,319)
Total ordinary shares (excluding treasury shares)	2,726,344	2,714,646

10. Exchange Rates

One Australian dollar equals	Income statement - average				Balance sheet - spot		
	Year to		Half Year to		As at		
	Sep 18	Sep 17	Sep 18	Mar 18	30 Sep 18	31 Mar 18	30 Sep 17
British pounds	0.5654	0.6017	0.5585	0.5721	0.5519	0.5476	0.5847
Euros	0.6390	0.6902	0.6317	0.6463	0.6202	0.6241	0.6658
United States dollars	0.7607	0.7623	0.7441	0.7775	0.7218	0.7684	0.7842
New Zealand dollars	1.0883	1.0667	1.0840	1.0924	1.0920	1.0627	1.0866

11. ASX Appendix 4E

Cross reference index	Page
Results for Announcement to the Market (4E Item 2)	Inside front cover
Income Statement (4E Item 3)	56
Balance Sheet (4E Item 4)	58
Condensed Cash Flow Statement (4E Item 5)	59
Statement of Changes in Equity (4E Item 6)	60–61
Dividends (4E Item 7)	69
Dividend dates (4E Item 7)	Inside front cover
Dividend Reinvestment Plan (4E Item 8)	69
Net tangible assets per ordinary share (4E Item 9)	100
Details of entities over which control has been gained or lost (4E Item 10)	n/a
The Group has not gained or lost control over any material entities during the year ended 30 September 2018.	
Details of associates and joint venture entities (4E item 11)	n/a
The Group held no material investments in associates or joint venture entities as at 30 September 2018.	
Other significant information (4E Item 12)	83
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Section 7

Glossary of Terms

Glossary of Terms

Terms	Description
12-months expected credit losses (ECL)	The portion of lifetime expected credit losses that represent the expected losses arising from default events that could occur within 12 months of the reporting date.
90+ days past due and gross impaired assets to GLAs	Loans and advances 90+ days past due but not impaired and impaired assets expressed as a percentage of Gross loans and acceptances. Calculated as the sum of 'Loans and advances past due but not impaired (Past due over 90 days)' and 'Gross impaired assets' divided by Gross loans and acceptances.
90+ days past due Assets	Assets 90+ days past due consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due.
AASB	Australian Accounting Standards Board.
ADI	Authorised Deposit-taking Institution.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to ADIs.
ASIC	Australian Securities and Investments Commission.
Assets under management (AUM)	Represents the market value of funds for which the Group acts as funds adviser or investment manager.
ASX	Australian Securities Exchange Limited.
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 <i>Major Bank Levy Act 2017</i> (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.
BNZ	Bank of New Zealand.
Business lending	Lending to non-retail customers including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
Cash earnings	Refer to page 2, Section 1 - Profit Reconciliation for information about, and the definition of, cash earnings.
Cash earnings on risk-weighted assets	Calculated as cash earnings (annualised) divided by average risk-weighted assets. Average risk-weighted assets are calculated as the average of the current and previous two quarters' risk-weighted assets.
Cash earnings per share - basic	Calculated as cash earnings divided by the weighted average number of ordinary shares (net of treasury shares).
Cash earnings per share - diluted	Calculated as cash earnings adjusted for interest expense on dilutive potential ordinary shares. This adjusted cash earnings is divided by the weighted average number of ordinary shares (net of treasury shares), adjusted to include dilutive potential ordinary shares.
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 (ROE)	Cash earnings after tax expressed as a percentage of average equity (adjusted), calculated on a cash earnings basis. See 'Information about Cash Earnings and other Non-IFRS Measures' on page 2 for more information in relation to cash earnings.
CLF	Committed Liquidity Facility.
Common Equity Tier 1 (CET1) capital	Common Equity Tier 1 (CET1) capital is recognised as the highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of common shares, retained profits, undistributed current year earnings, as well as other elements as defined under APS 111 <i>Capital Adequacy: Measurement of Capital</i> .
Common Equity Tier 1 ratio	CET1 capital divided by RWA.
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.
Cost to income ratio (CTI)	Cost to income ratio (CTI) represents operating expenses as a percentage of operating revenue.
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.
Customer risk management	Activities to assist customers to manage their financial risks (predominantly foreign exchange and interest rate risks).
CYBG	CYBG PLC.
CYBG Group	CYBG PLC and its controlled entities.
Discontinued operations	Discontinued operations are a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, which is part of a single co-ordinated plan for disposal.
Distributions	Payments to holders of other equity instrument issues such as National Income Securities and Trust Preferred Securities.
Dividend payout ratio	Dividends paid on ordinary shares divided by cash earnings per share.
Earnings per share (EPS)	Basic and diluted earnings per share calculated in accordance with the requirements of AASB 133 <i>Earnings per Share</i> .
Effective tax rate	Income tax expense divided by profit before income tax expense.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.
Fair value and hedge ineffectiveness	Represents volatility from the Group's assets and liabilities designated at fair value, hedge accounting ineffectiveness from designated accounting hedge relationships, or from economic hedges where hedge accounting has not been applied.
Forward looking adjustment (FLA)	The portion of expected credit losses that is derived from forward looking customer and macro-economic data.
FSB	Financial Stability Board.
Full-time equivalent employees (FTEs)	Includes all full-time employees, part-time, temporary, fixed term and casual employee equivalents, as well as agency temporary employees and external contractors either self-employed or employed by a third party agency. Note: This does not include consultants, IT professional services, outsourced service providers and non-executive directors.
Funds under management and administration (FUM/A)	Represents the market value of funds administered by the Group excluding AUM.
G-SIB	Global Systemically Important Bank.

Terms	Description
General reserve for credit losses (GRCL)	APRA Prudential Standard APS 220 <i>Credit Quality</i> 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 <i>Financial Instruments</i> expected credit loss provisions. The GRCL represents an appropriation of retained profits to non-distributable reserves when the regulatory reserve is greater than the accounting provision. The purpose of the GRCL is to provide the Group with freely available capital which can be used to meet credit losses that may subsequently materialise.
Gross loans and acceptances (GLAs)	The total loans, advances and acceptances, including unearned and deferred fee income, excluding associated provisions for expected credit losses. Calculated as the sum of 'Acceptances', 'Loans at fair value', and 'Total gross loans and advances'.
Group	NAB and its controlled entities.
High Quality Liquid Assets (HQLA)	HQLA refers to high quality liquid assets determined in accordance with APS 210 <i>Liquidity</i> (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.
Jaws	The difference between the percentage growth in revenue on the preceding period and the percentage growth in the expenses on the preceding period, calculated on a cash earnings basis.
Leverage Ratio	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 <i>Capital Adequacy</i> .
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.
NAB risk management	Management of interest rate risk in the banking book, wholesale funding and liquidity requirements and trading market risk to support the Group's franchises.
Net interest margin (NIM)	Net interest income derived on a cash earnings basis expressed as a percentage of average interest earning assets.
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.
Other banking products	Personal lending, credit cards (consumer and commercial), investment securities and margin lending.
PRA	United Kingdom Prudential Regulation Authority.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
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.
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.
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.
Securitisation	Structured finance technique which involves pooling, packaging cash-flows and converting financial assets into securities that can be sold to investors.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Statutory ROE	Statutory earnings after tax expressed as a percentage of Average equity (adjusted), calculated on a statutory basis.
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 <i>Capital Adequacy: Measurement of Capital</i> .
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.
TLAC	Total loss-absorbing capacity.
Total average assets	The average balance of assets held by the Group over the period, adjusted for disposed operations. Disposed operations include any operations that will not form part of the continuing Group. These include operations sold and those which have been announced to the market that have yet to reach completion. Refer to 'Average balances' on page 2, Section 1 - Profit Reconciliation for further information in relation to the calculation on average balances.
Total capital	The sum of Tier 1 capital and Tier 2 capital.
Total capital ratio	Total capital divided by RWA.
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 as presented in the table on page 3. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards.

Terms	Description
Weighted average number of ordinary shares	Calculated in accordance with the requirements of AASB 133 <i>Earnings per Share</i> .

