National Australia Bank

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

ANNUAL FINANCIAL REPORT 2019

National Australia Bank Limited ABN 12 004 044 937

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This 2019 Annual Financial Report (Report) is lodged with the Australian Securities and Investments Commission and ASX Limited. National Australia Bank Limited (NAB) is publicly listed in Australia. The Report contains information prepared on the basis of the *Banking Act 1959* (Cth), *Corporations Act 2001* (Cth), Accounting Standards and interpretations issued by the Australian Accounting Standards Board and International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board. NAB also produces a non-statutory Annual Review which can be viewed online at www.nab.com.au/annualreports.

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

Nothing in the Report is, or should be taken as, an offer of securities in NAB for issue or sale, or an invitation to apply for the purchase of such securities.

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

ANNUAL FINANCIAL REPORT 2019

2019 AT A GLANCE

$1.66

Dividend per share (for the full year)

—

32 cents lower than 2018

9.9%

cash return on equity

—

180 basis points decrease from 2018

54%

Employee engagement score

—

Compared to top quartile global benchmark of 69%

-14

Priority segments net promoter score

—

2 point increase from 2018, ranked equal #1 amongst major banks

$4.80BN

Statutory net profit

$5.10BN

Cash earnings

—

10.6% decrease from 2018

$6.55bn cash earnings ex large notables of $1,448m 0.8% increase from 2018

71,817

Australians assisted with microfinance products and services

—

1% increase from 2018

19,673

Number of customers assisted experiencing financial hardship

—

7% increase from 2018

CHAIRMAN'S MESSAGE

The release of National Australia Bank's annual reports coincides with my first day as Chairman. I have taken this position after eight months as interim Group CEO, more than three years as a Director and more than 37 years working in financial services.

This has been an extraordinarily challenging year for the organisation, in which it was clear that significant changes were necessary. We required a different approach.

The Board understands what has gone wrong within the bank and that we can only move forward if we deal with the past. We are determined to make things right, earn trust and build confidence in the future of our business.

We are pleased with the calibre of the incoming Group CEO, Ross McEwan, who is commencing on 2 December 2019. Ross is an experienced and proven CEO with a strong reputation for customer fairness, cost management, reputation recovery and leading industry reform. The Board stands ready to help Ross take the organisation forward to become the bank you want us to be.

At no stage will we seek to brush past the events and findings of the Royal Commission. We were rightly called out for failing to meet customer expectations and, in some cases, breaching their trust. We faced challenges and revelations that ultimately led to our outgoing Chairman and former Group CEO resigning.

The shareholders' first strike against our 2018 Remuneration Report at our Annual General Meeting (AGM) last year also sent a clear message. We needed to reshape our remuneration framework, including how we applied outcomes for executives.

Along the way, we lost trust with customers and the broader community. As interim Group CEO, I have responded to these disappointments by being clear on accountability and driving rigour and discipline in the way NAB operates.

Lifting performance

We are addressing the issues of the past and preparing the bank for the future. We have taken clear actions designed to ensure we meet customer and community expectations.

The Board has increased rigour in assessing performance, with a clear focus to reward longer-term, sustainable customer and shareholder outcomes.

While 2019 underlying business performance was solid, NAB did not achieve some financial and non-financial targets. The Remuneration Report reflects the Board's decision that the Executive Leadership Team will receive no short-term variable reward and no fixed remuneration increase for the financial year.

We have strengthened our financial settings. We have increased customer-related remediation provisions. We have lowered our dividend payout, by 16% from financial year 2018, and we have raised a significant amount of capital to ensure we are on track to meet APRA's 'Unquestionably Strong' requirements for 1 January next year.

Our transformation, which has been underway for over two years, is delivering real benefits in terms of productivity and supporting business growth in a challenging, low-rate environment. It is also improving the resilience of our technology and enabling us to adapt to a new digital future. Our focus on becoming simpler, faster and less complex for customers and employees has resulted in 30% fewer products, 30% fewer over the counter transactions and a 17% decrease in calls to our call centres.

We are making things right where we have made mistakes. We have improved processes to remediate customers fairly, consistently and more quickly, with a dedicated remediation team of more than 950 people driving this work.

A comprehensive program of work is well underway to improve non-financial risk management at NAB. We are focused on driving effective change to improve outcomes for customers and achieve sustainable, long-term performance.

We have begun an extensive and considered reform program to achieve cultural and risk transformation, arising out of the Self-Assessment and sitting alongside our Royal Commission response.

We take full accountability for our failings and have been transparent on our progress to address them. Intensive effort is underway to continue to overhaul processes and practices, but it is early days and there is more work to be done to achieve sustainable change.

We are determined to ensure NAB meets the highest standards and to build a culture that puts customers at the centre of everything we do.

Supporting customers and the broader community

NAB exists to serve customers, to keep their money safe and to facilitate borrowing and enable investment. In doing so, our core banking activities play an important role in the economy and the broader community – including $5 billion paid in dividends to our mostly Australian-based shareholders and $3.1 billion paid in taxes this year.

We are absolutely committed to doing our part to support growth for business and households. We know that increased prosperity in Australia relies heavily on business investment and the current caution in the private sector reflects broader global uncertainty.

The RBA cash rate is sitting at historic lows, which presents new challenges for our industry. We are determined to address the needs of depositors, borrowers and our shareholders in this dynamic environment – and remain very much open for business. This year we provided $61 billion in new lending for our Australian and New Zealand customers to buy or renovate their homes.

This year we enhanced our standing as Australia's largest business bank, growing market share in the small to medium sector. With NAB financing one in three dollars lent to Australian farmers, we are also the leading agribusiness bank.

We also want to make a positive impact on the lives of our customers, people, shareholders, communities and the environment in which we operate. Our employees took 13,464 volunteer days to support the community this year and in our 16th year of partnership with Good Shepherd, we have now funded $293.6 million in loans to more than half a million Australians unable to access mainstream finance.

In a unique collaboration with the CSIRO, we launched the *Australian National Outlook* report in June, outlining a broad and compelling view about Australia's roadmap to 2060. We are committed to the communities in which we operate and understand we have an important role to play in Australia's economy.

We have more than 34,000 people and are equally focused on caring for them; the bankers and teams across the bank who strive to deliver the best possible financial services to our customers every day. I am proud that our customers often call out their local branch employees as the highlight of their banking relationship with us.

We are working to foster a culture of inclusion and accessibility, enabled by leaders and employee-led volunteer groups. In our survey of NAB employees this year, 74% told us they experienced an inclusive workplace in 2019. Our aim is to reach the top quartile of organisations in Australia and New Zealand, which would require a result around 77% for inclusion.

The future of your business

As Chairman, I am acutely aware of what is expected of me and the Board in coming years. We will continue to actively pursue Board renewal, following the resignation of former Chairman Ken Henry, effective November 2019 and the planned retirement of Anthony Yuen after our AGM in December 2019.

I take this opportunity to formally thank Ken and Anthony for their contributions and service since they joined the Board in 2011 and 2010 respectively, and wish them well for the future. I also thank our former Group CEO, Andrew Thorburn, who led the organisation for more than four years and whose passion for customers is well known.

I would also like to welcome Kathryn Fagg as a new director on our Board, effective 16 December 2019. Kathryn is a highly respected director with extensive leadership experience across several industries, including banking, and will stand for election at our AGM in December 2019.

The Board understands we are at the service of shareholders, as well as customers and the community. As customers and shareholders ourselves, we have a shared experience and perspective on NAB's performance.

After a year in which we were found to have fallen short in several areas, we look forward to demonstrating to all stakeholders that we are a company worthy of your support.

Philip Chronican, Chairman

OPERATING AND FINANCIAL REVIEW

The directors of National Australia Bank Limited (NAB) present their report, together with the financial statements of the Group, being NAB and its controlled entities, for the year ended 30 September 2019.

Certain definitions

The Group's financial year ends on 30 September. The financial year ended 30 September 2019 is referred to as 2019 and other financial years are referred to in a corresponding manner. Reference in this document to the September 2019 full year are references to the twelve months ended 30 September 2019. The abbreviations $m and $bn represent millions and thousands of millions (i.e. billions) of Australian dollars respectively.

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

Forward looking statements

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

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

The Operating and Financial Review describes certain initiatives relating to the Group's strategic agenda ("Program"), including certain forward looking statements. These statements are subject to a number of risks, assumptions and qualifications, including:

- 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.
- 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).
- 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).
- The Group's ability to meet its internal net FTE reduction targets.
- The Group's ability to recruit and retain FTE and contractors with the requisite skills and experience to deliver Program initiatives.
- 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.
- 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.
- 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.
- NAB's proposed divestment of its wealth management businesses (excluding JBWere and nabtrade) may have an impact on the timing, scope and cost of the Program, however the impact cannot be quantified at this time.

Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained on page 18 under "Disclosure on Risk Factors".

Financial performance summary

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

Non-IFRS key financial performance measures used by the Group

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

- cash earnings
- cash earnings (excluding large notable items)
- statutory ROE
- cash ROE
- net interest margin
- average equity (adjusted)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

- average interest earning assets
- average assets.

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

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

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

Information about cash earnings

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

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

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

Information about net interest margin

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

Information about average balances

Average balances, including average equity (adjusted), total average assets and average interest earning assets are based on daily statutory average balances derived from internally generated trial balances 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.

Refer to page 7 for a five-year summary of the Group's average equity (adjusted), total average assets and average interest earning assets.

Information about large notable items

Large notable items included in the net profit attributable to owners of NAB are described below:

Customer-related remediation

Charges associated with customer-related remediation matters. These include:

- refunds and compensation to customers impacted by issues in the Wealth business, including adviser service fees charged by NAB Financial Planning and NAB Advice Partnerships, combined with the Wealth advice review and consumer credit insurance sales (within discontinued operations)
- banking-related matters, including matters where customers were incorrectly charged fees on certain fee-exempt transactions
- costs for implementing remediation processes.

Capitalised software policy change

Charge associated with a change in the application of the software capitalisation policy by increasing the capitalisation threshold from $0.5 million to $2 million.

Restructuring-related costs

Costs associated with the acceleration of the Group's strategic agenda announced on 2 November 2017 to enhance the customer experience and simplify its business.

Rounding of amounts

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

OPERATING AND FINANCIAL REVIEW (CONTINUED)

5 Year Financial Performance Summary

	Group[1]				
	2019 $m	2018 $m	2017 $m	2016 $m	2015 $m
Net interest income	**13,558**	13,505	13,182	12,930	12,462
Other income	**4,373**	5,596	4,842	5,192	5,975
Operating expenses	**(9,827)**	(9,910)	(8,539)	(8,331)	(8,189)
Credit impairment charge	**(927)**	(791)	(824)	(813)	(733)
Profit before income tax	**7,177**	8,400	8,661	8,978	9,515
Income tax expense	**(2,087)**	(2,455)	(2,480)	(2,553)	(2,709)
Net profit for the year from continuing operations	**5,090**	5,945	6,181	6,425	6,806
Net (loss) after tax for the year from discontinued operations	**(289)**	(388)	(893)	(6,068)	(414)
Net profit for the year	**4,801**	5,557	5,288	357	6,392
Profit attributable to non-controlling interests	**3**	3	3	5	54
Net profit attributable to owners of NAB	**4,798**	5,554	5,285	352	6,338

(1) Information is presented on a continuing operations basis. September 2015 was restated for the demerger of CYBG and the sale of 80% of Wealth's life insurance business to Nippon Life in September 2016. The Group's financial statements for the year ended 30 September 2015 can be found in the corresponding report published by the Group for the period.

5 Year Key Performance Indicators

	Group				
	2019	2018	2017	2016	2015
Key Indicators					
Statutory earnings per share (cents) - basic	**168.6**	201.3	194.7	8.8	252.7
Statutory earnings per share (cents) - diluted	**164.4**	194.0	189.1	15.5	245.4
Statutory return on equity	**9.1%**	11.2%	10.9%	0.5%	15.2%
Cash return on equity	**9.9%**	11.7%	14.0%	14.3%	14.8%
Profitability, performance and efficiency measures					
Dividend per share (cents)	**166**	198	198	198	198
Net interest margin[1]	**1.78%**	1.85%	1.85%	1.88%	1.90%
Capital					
Common Equity Tier 1 ratio	**10.38%**	10.20%	10.06%	9.77%	10.24%
Tier 1 ratio	**12.36%**	12.38%	12.41%	12.19%	12.44%
Total capital ratio	**14.68%**	14.12%	14.58%	14.14%	14.15%
Risk-weighted assets ($bn) (spot)	**415.8**	389.7	382.1	388.4	399.8
Volumes ($bn)[1]					
Gross loans and acceptances (spot)[2]	**601.4**	585.6	565.1	545.8	521.9
Average interest earning assets	**758.8**	726.7	711.3	689.5	658.1
Total average assets	**835.9**	807.0	798.8	855.8	864.6
Customer deposits (spot)	**424.6**	409.0	407.6	390.5	362.0
Average equity (adjusted) - Statutory	**51.6**	48.7	47.5	44.3	40.5
Average equity (adjusted) - Cash	**51.6**	48.7	47.5	45.5	42.2
Asset quality					
90+ days past due and gross impaired assets to gross loans and acceptances[1]	**0.93%**	0.71%	0.70%	0.85%	0.63%
Other					
Funds under management and administration (FUM/A) (spot) ($bn)[3]	**150.2**	144.7	133.8	125.0	n/a
Assets under management (AUM) (spot) ($bn)[3]	**201.5**	206.7	195.3	184.9	n/a
Full Time Equivalent Employees (FTE) (spot)[1]	**34,370**	33,283	33,422	34,263	33,894
Full Time Equivalent Employees (FTE) (average)[1]	**33,950**	33,747	33,746	34,567	34,148

(1) Information is presented on a continuing operations basis. September 2015 was restated for the demerger of CYBG and the sale of 80% of Wealth's life insurance business to Nippon Life in September 2016. The Group's financial statements for the year ended 30 September 2015 can be found in the corresponding report published by the Group for the period.
(2) Including loans and advances at fair value.
(3) For the year ended 30 September 2017, there was a change to the presentation of FUM/A and AUM to include two separate disclosures that represent all managed funds and assets from which the Group derives revenue. Certain items will be represented in both FUM/A and AUM and therefore the two should not be summed. Comparative period information was restated for September 2016. 2015 period was not restated.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Principal Activities

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

Significant changes in the state of affairs

- A number of changes to the composition of the NAB Board and Executive Leadership Team have occurred or were announced during 2019, namely:
  - Mr Andrew Thorburn resigned as Managing Director and Group Chief Executive Officer (CEO) and ceased employment with the Group effective 28 February 2019.
  - Mr Philip Chronican, Director, commenced as interim Group CEO on 1 March 2019 and served in this capacity until 14 November 2019. He commenced as Chairman of the Board effective 15 November 2019.
  - Dr Ken Henry, resigned as non-executive director and Chairman of the Board effective 14 November 2019.
  - The Board announced the appointment of Mr Ross McEwan as incoming Group CEO on 19 July 2019 and he will commence in this role and as Managing Director on 2 December 2019.
  - Mr Gary Lennon, Group Chief Financial Officer (CFO), acted as Group CEO from 21 December 2018 to 28 February 2019 and will be acting Group CEO from 15 November 2019 to 1 December 2019 while continuing as Group CFO.
  - Mr Greg Braddy, Deputy Group CFO, acted as Group CFO from 21 December 2018 to 28 February 2019.
  - Ms Lorraine Murphy, Chief People Officer, ceased employment with the Group on 29 March 2019.
  - Ms Julie Rynski, Customer Executive Regional and Agribusiness, acted as Chief People Officer from 30 March 2019 to 30 September 2019.
  - Ms Susan Ferrier joined NAB as Chief People Officer on 1 October 2019.
  - Ms Kathryn Fagg has been appointed as a non-executive director of NAB, effective 16 December 2019.
  - Mr Anthony Yuen will retire as a non-executive director of NAB following the Company's Annual General Meeting on 18 December 2019.
- In March 2019, the Group established a Board Customer Committee to better oversee NAB's processes to ensure fair products and service outcomes and to evaluate customer feedback and complaints.
- On 17 December 2018, the Group redeemed the GBP400 million Trust Preferred Securities (TPS) issued by National Capital Trust 1 and guaranteed (on a limited basis) by NAB on 29 September 2003. The Trust Preferred Securities were redeemed for cash at their par value plus accrued distribution.
- On 20 March 2019, the Group issued $1,874 million of NAB Capital Notes 3, which will mandatorily convert into NAB Ordinary Shares on 19 June 2028, provided certain conditions are met. With written prior approval from APRA, the Group may elect to convert, redeem or resell NAB Capital Notes 3 on 17 June 2026, or on the occurrence of particular events, provided certain conditions are met.
- On 20 March 2019, the Group completed the resale of all convertible preference shares (CPS) issued on 20 March 2013 to a nominated purchaser, in accordance with the resale notice issued on 11 February 2019. Following the resale, $750 million of CPS were converted into ordinary shares, and the remaining balance of approximately $764 million of CPS was redeemed.

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

The Group's Business

The Group is a financial services organisation with more than 34,000 people, operating through a network of almost 900 locations, with over 573,000 shareholders and serving approximately nine million customers. The Group's purpose is to back the bold who move Australia forward.

The majority of the Group's financial services businesses operate in Australia and New Zealand, with branches located in Asia, the United Kingdom (UK) and the United States (US).

In 2019, the Group operated the following divisions:

- *Business and Private Banking* focuses 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.
- *Consumer Banking and Wealth* provides customers with products and services through proprietary networks in NAB and UBank, as well as third party and mortgage brokers. Customers are served through the Consumer Banking network to secure home loans or manage personal finances through deposit, credit or personal loan facilities. The network also provides servicing support to individuals and business customers. Wealth, including Wealth Advice, Asset Management and Superannuation, provides customers with access to advisers and a financial planning network of self-employed and employed advisers in Australia.
- *Corporate and Institutional Banking* provides a range of lending and transactional products and services related to financial and debt capital markets, specialised capital, custody and alternative investments. The division serves its customers in Australia and globally, including

OPERATING AND FINANCIAL REVIEW (CONTINUED)

branches in the US, UK and Asia, with specialised industry relationships and product teams. It includes Bank of New Zealand's Markets Trading operations.
- *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.
- *Corporate Functions and Other* includes functions that support all businesses including Treasury, Technology and Operations, Support Units and Eliminations.

Strategic Highlights

Focus, Vision and Objectives

The Group's strategic focus supports its vision to be Australia's leading bank, trusted by customers for exceptional service. Achieving this vision is underpinned currently 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.

Implementation of APRA Self-Assessment Actions and Royal Commission Recommendations

At the request of the Australian Prudential Regulation Authority (APRA), the Group undertook a Self-Assessment into governance, accountability and culture in June 2018. The Self-Assessment identified shortcomings in aspects of the Group's approach to non-financial risk management, with particular focus on operational, compliance and conduct risk. On 30 November 2018, the Group voluntarily published the Self-Assessment report which identified 26 actions to deliver structural, procedural and cultural change. This work is organised around five overarching goals arising out of the Self-Assessment and sits alongside NAB's Royal Commission response.

On 1 February 2019, the Royal Commission Final Report was handed to the Governor-General by Commissioner, the Hon. Kenneth Hayne AC QC. The Final Report includes 76 recommendations. The Group supports 72 of the 76 recommendations. The Royal Commission has established new standards and expectations across the industry. The Group welcomes change that will drive better outcomes for customers and will implement the recommendations in accordance with their intent.

A report detailing NAB's progress against the Self-Assessment and the recommendations of the Royal Commission was released on 7 November 2019 and is available at www.nab.com.au/about-us/shareholder-centre/asx-announcement.

Accelerating our Strategy

In November 2017, the Group announced an acceleration of its strategy over the three years to September 2020 to achieve its vision and objectives, reflecting the environment of rapid and constant change.

This transformation involves a targeted $1.5 billion increase in investment spend over the three years to September 2020, taking total investment spend to approximately $4.5 billion over that period. In the September 2019 financial year, investment spend was $1.7 billion, bringing the cumulative total since September 2017 to $3.2 billion. The focus of this increased investment spend over three years is on the four key areas outlined below.

Best Business Bank

The Group continues to invest in transforming its leading Australian Small and Medium Enterprise (SME) franchise, making it simpler and easier for customers. Good progress has been made since September 2017 including:
- Improved banker capacity to understand and support business and personal needs of the Group's more complex customers, with revenue per banker increasing 20%.
- New Customer Relationship Management platform has been rolled-out providing mobile capability, real time data and automated reports and dashboards.
- Small business customers have been migrated to a new customer service hub, open 7 days a week with extended operating hours.
- The proportion of new small business lending accounts generated via the Quickbiz digital platform, increased to 47% from 20%.
- Revenue from bankers with industry specialisations or focus up from 20% to 30%.

Simpler and Faster

The Group is focused on delivering exceptional customer service with increased productivity and reduced complexity. Key progress since September 2017 includes:
- Number of products reduced by 30% from approximately 600 to 423.
- Over-the-counter transactions in branches declined by 30% and call centre volumes reduced by 17%.
- 95 branches and business centres closed and 835 smart ATM's rolled out.
- Mobile cheque capture launched.
- Simplifying, reducing and improving transparency of fees, with 185 fees removed or reduced across Australian

(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 Net Promoter Score (NPS) is a simple average of the NPS scores of four priority segments: NAB defined Home Owners (HL@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 DBM Atlas & BFSM Research for the September 2019 financial year.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Banking and Wealth in the September 2019 financial year.

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 includes:

- 75 global infrastructure deals completed over the year to September 2019 worth approximately $53 billion of total project debt.
- UBank, the Group's digital bank, increased customer numbers by 40% over the two years to September 2019, and grew home lending at 7 times system rate over the September 2019 financial year.

Great People, Talent and Culture

To deliver on its strategy and to meet the expectations of its customers and the community, the Group is focused on having the right culture and plan in place to build the capability of our people and attract the best talent. Key initiatives include:

- Commencement of a new Group Chief People Officer, Ms Susan Ferrier from 1 October 2019, who has led large transformation and culture change programs.
- A face-to-face program for all People Leaders to build awareness and create alignment around the Group's three culture priorities - customer first, disciplined and simpler for our people.

As part of the transformation, 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 2019 financial year, cost savings of $480 million were achieved, bringing cumulative cost savings since September 2017 to $800 million.

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. This is expected to result in a net reduction in roles of approximately 4,000 by 30 September 2020. During the September 2019 financial year, a reduction of 1,816 roles occurred and an additional 1,045 new roles were added. On a cumulative basis since September 2017, there has been a reduction of 3,713 roles and an addition of 1,240 new roles.

The Group outlined a target for expense growth over the September 2019 financial year and the September 2020 financial year to be broadly flat excluding large notable items. In the September 2019 financial year, expense growth excluding large notable items was broadly flat.

Reshaping of Wealth Management

In May 2018, the Group announced an intention to reshape its wealth offering, consistent with its plan to become simpler and faster. A detailed review 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 focused wealth 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, Platform & Superannuation and Asset Management businesses, currently operating under MLC and other brands ('MLC Wealth'). Separate ownership will allow this business to determine its own strategy and investment priorities to better deliver for customers and enhance its competitive position. It is expected there will be ongoing arrangements between the Group and MLC Wealth, to offer the Group's customers continued access to advice and products to meet wealth management needs.

Since announcing this intention, the reshaping of MLC Wealth continues to gain momentum. A new executive team is now largely in place with a new operating model structured around four business pillars of - Advice, Platforms, Asset Management and Retirement and Investment Solutions. Significant work is underway to ensure the strength of each pillar. This includes a simpler, more customised advice business, a rebranding and leadership restructure in Asset Management, and more competitive pricing across the business.

The Group continues to make progress towards a separation of MLC Wealth, targeting a public markets exit in the 2020 financial year, together with exploration of alternative transaction structures and options. The Group will take a disciplined approach to the exit of MLC Wealth and will execute a transaction at the appropriate time having regard for the interests of all stakeholders. Any transaction remains subject to market conditions, regulatory and other approvals.

Performance against Key Long-term Objectives

The Group uses the NPS[(1)] system to access real-time, targeted feedback so it can understand and improve the customer experience. Over the September 2019 financial year, priority segment NPS[(1)(2)] improved from -16 to -14, and is equal first amongst major 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 by becoming simpler and faster to

(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 Net Promoter Score (NPS) is a simple average of the NPS scores of four priority segments: NAB defined Home Owners (HL@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 DBM Atlas & BFSM Research for the September 2019 financial year.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

deliver better outcomes for its customers, backing its customers to grow and helping them when they need it most. Key initiatives supporting this focus over the September 2019 financial year include:

- Simplification and reduction of fees, with 185 fees removed or reduced across Australia Banking and Wealth.
- A pledge to keep the Group's 316 branches in regional and rural Australia open until at least January 2021 and the Group has ceased charging default interest to agricultural customers impacted by drought.

Over the September 2019 financial year, the Group's Cost to Income (CTI) ratio on a cash earnings basis increased by 230 basis points to 52.3%. Excluding large notable items, the CTI decreased 30 basis points to 44.3%, benefitting from productivity savings from the Group's transformation program.

Over the September 2019 financial year, the Group's cash return on equity (ROE) declined 180 basis points to 9.9%. Excluding large notable items, Cash ROE declined 60 basis points to 12.7%, mainly reflecting higher credit impairment charges and higher levels of equity.

The Group is targeting top quartile employee engagement. The Group's annual staff engagement result for September 2019 remained stable at 54%. This is below the top quartile benchmark of 69%[(1)] reflecting the year's challenging events.

Maintaining Strong Foundations

The Group remained well capitalised during the year to September 2019 with a Group Common Equity Tier 1 (CET1) ratio of 10.38% as at 30 September 2019. The Group expects to achieve APRA's 'Unquestionably Strong' capital benchmark from 1 January 2020.

The Board determined it prudent to reduce the 2019 interim and full year dividend to 83 cents per share, representing a 16% reduction compared to the 2018 financial year. In addition, the Board made the decision to partially underwrite and apply discounts to the Dividend Reinvestment Plan for both the interim and final 2019 dividend.

These actions are in response to a more challenging operating environment, regulatory change and customer-related remediation. The actions have also resulted in the Group being well placed to meet APRA's 'Unquestionably Strong' capital benchmark by 1 January 2020.

The Group has maintained strong liquidity through the September 2019 financial year. The Net Stable Funding Ratio (NSFR) was 113% and the quarterly average Liquidity Coverage Ratio (LCR) was 126%, 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.

On a cash earnings basis, credit impairment charges for the September 2019 financial year increased 18% over the year and represents 0.15% 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 increased over the year to September 2019 by 22 basis points to 0.93%, largely due to rising Australian mortgage delinquencies.

Provisions for credit impairment remain prudent. On a cash earnings basis, total provisions increased 11% over the year to $4,142 million, and the ratio of collective provisions to credit risk-weighted assets increased from 0.92% to 0.96%.

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. Progress since September 2017 includes:

- A new technology leadership team has been established, with new executives hired from major global financial services and technology firms bringing strong technology experience.
- IT legacy applications have reduced by 278 or 11%, and 422 or 19% of current IT applications have been migrated to the cloud. The Group is targeting a 15-20% reduction in IT legacy applications and 35% migration of current IT applications to the cloud.
- A cloud-based data lake has been built with >100 key data feeds in production and sophisticated tools developed to support advanced data analytics and machine learning.
- Customers are now beginning to see improvements as a result of the Group's investment and strategic approach to technology changes, with a 42% drop in critical and high incidents over the year to September 2019.

(1) Based on the top quartile of Australian and New Zealand companies, source Aon (now known as Kincentric) 2019.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial Performance

	Group					
	2019	Large Notable Items	2019 ex Large Notable Items	2018	Large Notable Items	2018 ex Large Notable Items
	$m	$m	$m	$m	$m	$m
Net interest income	**13,558**	**(72)**	**13,630**	13,505	-	13,505
Other income	**4,373**	**(1,135)**	**5,508**	5,596	(249)	5,845
Net operating income	**17,931**	**(1,207)**	**19,138**	19,101	(249)	19,350
Operating expenses	**(9,827)**	**(858)**	**(8,969)**	(9,910)	(866)	(9,044)
Credit impairment charge	**(927)**	**-**	**(927)**	(791)	-	(791)
Profit before income tax	**7,177**	**(2,065)**	**9,242**	8,400	(1,115)	9,515
Income tax expense	**(2,087)**	**617**	**(2,704)**	(2,455)	324	(2,779)
Net profit for the year from continuing operations	**5,090**	**(1,448)**	**6,538**	5,945	(791)	6,736
Net (loss) after tax for the year from discontinued operations	**(289)**	**(257)**	**(32)**	(388)	(53)	(335)
Net profit for the year	**4,801**	**(1,705)**	**6,506**	5,557	(844)	6,401
Profit attributable to non-controlling interests	**3**	**-**	**3**	3	-	3
Net profit attributable to owners of NAB	**4,798**	**(1,705)**	**6,503**	5,554	(844)	6,398

September 2019 v September 2018

Net profit attributable to owners of NAB (statutory net profit) decreased by $756 million or 13.6%.

Net interest income increased by $53 million or 0.4%, including a decrease of $133 million which was offset by movements in economic hedges in other operating income and customer-related remediation of $72 million in the 2019 financial year. Excluding these movements, the underlying increase of $258 million or 1.9% was driven by growth in both housing and business lending volumes, combined with the impact of repricing in the lending portfolios. These movements were partially offset by competitive pressures and changing customer preferences (switching from interest only to principal and interest home loans) affecting housing lending margins, and higher funding and liquidity costs.

Other income decreased by $1,223 million or 21.9%, including an increase of $133 million which was offset by movements in economic hedges in net interest income, and an increase of $886 million in customer-related remediation. Excluding these movements, the underlying decrease of $470 million or 8.4% was mainly driven by unfavourable movements in fair value and hedge ineffectiveness, lower Wealth income as a result of fee reductions and repricing, removal of grandfathered commissions, and a change in customer preferences to lower margin products, and lower Markets income. This was partially offset by higher NAB risk management income in Treasury.

Operating expenses decreased by $83 million or 0.8%. Excluding a decrease of $8 million in large notable items, total operating expenses decreased by $75 million or 0.8%. This was driven by productivity benefits achieved through continued simplification of the Group's operations and reduction in third party spend, combined with lower performance-based compensation and lower legal costs associated with the Royal Commission. This was largely offset by foreign exchange movements, continued investment in technology and associated amortisation charges, increased spend to uplift customer experience and strengthen the compliance and control environment, and the impact of annual salary increases.

Credit impairment charge increased by $136 million or 17.2% mainly driven by new and increased specific credit impairment charges raised for the business lending portfolios in Australia and New Zealand, partially offset by write-backs resulting from business turnarounds for a small number of larger exposures, combined with lower collective credit impairment charges.

Income tax expense decreased by $368 million or 15.0% largely due to a lower profit before tax.

Discontinued operations reflect losses relating to customer-related remediation of $257 million after tax and additional costs associated with the life insurance business sale.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Large Notable Items

	Group	
	2019 $m	2018 $m
Net interest income		
Customer-related remediation	**(72)**	-
Other income		
Customer-related remediation	**(1,135)**	(249)
Net operating income	**(1,207)**	(249)
Operating expenses		
Customer-related remediation	**(364)**	(111)
Capitalised software policy change	**(494)**	-
Restructuring-related costs	**-**	(755)
(Loss) before income tax	**(2,065)**	(1,115)
Income tax benefit	**617**	324
Net (loss) for the year from continuing operations	**(1,448)**	(791)
Net (loss) after tax for the year from discontinued operations	**(257)**	(53)
Net (loss) attributable to owners of NAB	**(1,705)**	(844)

Large notable items recognised in net profit attributable to owners of NAB consists of:

- Charges associated with customer-related remediation matters of $1,100 million ($1,571 million before tax) in continuing operations in the September 2019 financial year (2018: $261 million ($360 million before tax)). The charges of $1,571 million were recognised as follows:
  - $72 million in net interest income
  - $1,135 million in other operating income
  - $364 million in operating expenses.
- Charges associated with customer-related remediation matters of $257 million ($367 million before tax) in discontinued operations in the September 2019 financial year (2018: $53 million ($75 million before tax)).
- Accelerated amortisation charge of $348 million ($494 million before tax) in continuing operations in the 2019 financial year following a change to the application of the software capitalisation policy.
- Restructuring-related costs of $530 million ($755 million before tax) in continuing operations in the September 2018 financial year.

Review of Group and Divisional Results

	Group	
	2019 $m	2018 $m
Business and Private Banking	**2,840**	2,911
Consumer Banking and Wealth	**1,366**	1,539
Corporate and Institutional Banking	**1,508**	1,541
New Zealand Banking	**997**	922
Corporate Functions and Other[1]	**(1,614)**	(1,211)
Cash earnings	**5,097**	5,702
Cash earnings (excluding large notable items)	**6,545**	6,493
Non-cash earnings items	**(10)**	240
Net (loss) from discontinued operations	**(289)**	(388)
Net profit attributable to owners of NAB	**4,798**	5,554

(1) Includes large notable items.

September 2019 v September 2018

Group

Cash earnings decreased by $605 million or 10.6%. Cash earnings excluding large notable items increased by $52 million or 0.8%.

Business and Private Banking

Cash earnings decreased by $71 million or 2.4% driven by higher credit impairment charges and higher operating expenses due to the continued investment in technology and associated amortisation charges, partially offset by higher revenue from balance sheet growth.

Consumer Banking and Wealth

Cash earnings decreased by $173 million or 11.2% driven by lower revenue as a result of competitive pressures on housing margins, and lower margins in the wealth portfolios, combined with increased credit impairment charges.

Corporate and Institutional Banking

Cash earnings decreased by $33 million or 2.1% driven by increased credit impairment charges relating to the impairment of a small number of larger exposures. Revenue increased reflecting growth in gross loans and acceptances and customer deposits, partially offset by lower margins (ex Markets) and lower Markets income.

New Zealand Banking

Cash earnings increased by $75 million or 8.1% driven by higher revenue benefitting from growth in lending, partially offset by higher expenses and credit impairment charges.

Corporate Functions and Other

The cash deficit increased by $403 million mainly due to increase of $657 million in large notable items.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Group Balance Sheet Review

	Group	
	2019 $m	2018 $m
Assets		
Cash and liquid assets	**55,457**	50,188
Due from other banks	**32,130**	30,568
Trading instruments	**96,828**	78,228
Debt instruments	**40,205**	42,056
Other financial assets	**7,110**	10,041
Loans and advances	**587,749**	567,981
Due from customers on acceptances	**2,490**	3,816
All other assets	**25,155**	23,632
Total assets	**847,124**	806,510
Liabilities		
Due to other banks	**34,273**	38,192
Trading instruments	**34,318**	22,422
Other financial liabilities	**33,283**	30,437
Deposits and other borrowings	**522,085**	503,145
Bonds, notes and subordinated debt	**143,258**	140,222
Other debt issues	**6,482**	6,158
All other liabilities	**17,821**	13,222
Total liabilities	**791,520**	753,798
Total equity	**55,604**	52,712
Total liabilities and equity	**847,124**	806,510

September 2019 v September 2018

Total assets increased by $40,614 million or 5.0%. The increase was mainly due to a net increase in cash and liquid assets, due from other banks and trading instruments of $25,431 million or 16.0%. The increase is mainly in trading instruments due to foreign exchange rate and interest rate movements during the period. Furthermore, an increase in loans and advances (net of other financial assets at fair value and due from customers on acceptances) of $15,511 million or 2.7% reflects growth in non-housing lending driven by the Group's focus on priority business segments, combined with continued momentum in housing lending.

Total liabilities increased by $37,722 million or 5.0%. The increase was mainly due to growth in bonds, notes and subordinated debt, other financial liabilities and trading instruments of $17,778 million or 9.2% due to an increase in long-term funding to support the Group's asset growth, as well as foreign exchange and interest rate movements during the period. Furthermore, an increase in deposits and other borrowings and due to other banks totaling $15,021 million or 2.8% reflects growth to support increased lending and the liquidity portfolio. Total equity increased by $2,892 million or 5.5% mainly due to an increase in contributed equity attributable to shares issued through the Dividend Reinvestment Plan (DRP), DRP underwritten allotments and conversion of preference shares during the period.

Capital Management and Funding Review

Balance Sheet Management Overview

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

- Seeking to maintain a well-diversified wholesale funding portfolio which accesses funding across a variety of markets, currencies and product types.
- Continuing to monitor and assess these positions so that changes in market conditions and regulation can be accommodated.

Regulatory Reform

The Group remains focused 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 capital requirements for major Australian banks by 150 basis points, such that they are considered 'Unquestionably Strong'.
- 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'.
- Final revised prudential standards in relation to the risk-weighting framework and other capital requirements are expected to be released in 2020, for proposed implementation by 1 January 2022.
- In October 2019, APRA proposed changes to the treatment of equity investments in subsidiaries (including Bank of New Zealand) for the purpose of calculating Level 1 regulatory capital. APRA intends to finalise these changes in early 2020, for implementation by 1 January 2021.
- APRA has also proposed a minimum leverage ratio requirement of 3.5% for internal ratings-based (IRB) ADIs and a revised leverage ratio exposure measurement methodology from 1 January 2022. The Group's leverage ratio as at 30 September 2019 of 5.5% (under current methodology) is disclosed in further detail in the September 2019 Pillar 3 Report.

Increased Loss-absorbing Capacity for ADIs

- In July 2019, APRA released its framework for the implementation of an Australian loss-absorbing capacity regime, requiring an increase in Total capital of 3% of risk-weighted assets for Domestic Systemically Important Banks (D-SIBs) by 1 January 2024. APRA has maintained its overall target calibration of 4% to 5% of risk-weighted assets, and will consult on alternative methods for raising the additional loss-absorbing capacity equal to 1% to 2% of risk-weighted assets over the next four years.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Reserve Bank of New Zealand (RBNZ) Capital Review

- In New Zealand, the RBNZ is undertaking a review of the capital adequacy framework applied to registered banks incorporated in New Zealand. In December 2018, the RBNZ proposed amendments to the amount of regulatory capital required of locally incorporated banks, including:
  - increases in risk-weighted assets for banks that use the IRB approach, increased scalars and the introduction of standardised output floors.
  - an increase in the Tier 1 capital requirement to 16% of risk-weighted assets.
- The RBNZ is proposing various dates for implementation of the proposed changes, including increases in the Tier 1 capital requirement over a five year period to 2024. RBNZ expects to publish final rules in December 2019.

Further detail on the regulatory changes impacting the Group are outlined in the September 2019 Pillar 3 Report.

National Income Securities

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

Capital Management

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

The Group's capital ratio operating targets are regularly reviewed in the context of the external economic and regulatory outlook with the objective of maintaining balance sheet strength. The Group expects to achieve APRA's 'Unquestionably Strong' capital benchmark from 1 January 2020.

Funding and Liquidity

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

Funding

The Group employs a range of metrics to set its risk appetite and measure balance sheet strength. The NSFR is a metric that measures the extent to which assets are funded with stable sources of funding in order to mitigate the risk of future funding stress. At 30 September 2019 the Group's NSFR was 113%, above the regulatory minimum of 100%.

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. Over the September 2019 financial year the SFI remained stable at 93% as an increase in the CFI was offset by a reduction in the TFI.

Customer Funding

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

The Monthly Banking Statistics published by APRA show that for the 6 months ended 30 September 2019[(1)], NAB's growth has been as follows:

- Australian domestic household deposits have grown by 1.3%.
- Business deposits (excluding deposits from financial corporations and households) have reduced by 0.1%.
- Deposits from financial institutions have reduced by 0.4%.

Term Wholesale Funding

After a period of deterioration and volatility towards the end of calendar year 2018, conditions in global debt capital markets rebounded in 2019, with the Australian market performing particularly strongly. Offshore debt issuance spreads are largely unchanged when compared to the beginning of the September 2019 financial year, while the Australian market has outperformed, with credit spreads reaching tighter levels. NAB's average term wholesale funding issuance cost was higher in the September 2019 half year, this was driven by the issuance of subordinated Tier 2 debt. Term funding markets will continue to be influenced by investor sentiment, macroeconomic conditions, monetary and fiscal policy settings as well as hedging costs in various derivative markets.

The Group maintains a well-diversified funding profile across issuance type, currency, investor location and tenor, and raised $26.2 billion during the September 2019 financial year.

NAB raised $22.2 billion of term funding, comprising $13.8 billion of senior unsecured funding, $5.2 billion of secured funding (comprised of covered bonds and residential mortgage backed securities (RMBS)) and $3.2 billion of subordinated Tier 2 funding. BNZ raised $4.0 billion during the September 2019 financial year.

(1) Source: APRA Monthly Authorised Deposit-taking Institution Statistics. The collection data is aligned to the new regulatory definitions set by APRA. APRA have published comparatives restating March 2019 only.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

The weighted average maturity of term wholesale funding raised by the Group over the September 2019 financial year was approximately 5.7 years to the first call date, inclusive of subordinated debt. The weighted average remaining maturity of the Group's term wholesale funding portfolio is 3.2 years.

Short-term Wholesale Funding

The Group maintained consistent access to international and domestic short-term wholesale funding markets during the September 2019 financial year, noting certain periods of increased volatility.

In addition, repurchase agreements have been 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.

Liquidity Coverage Ratio

The liquidity coverage ratio (LCR) metric measures the adequacy of high quality liquid assets (HQLA) available to meet net cash outflows over a 30 day period during a severe liquidity stress scenario. HQLAs consist of cash and central bank reserves along with highly rated government and central bank issuance. In addition to HQLA, other regulatory liquid assets included in the Committed Liquidity Facility (CLF) also contribute to the LCR calculation. The approved CLF size for 2019 was $55.9 billion ($59.3 billion for calendar year 2018).

The Group maintains a well-diversified liquid asset portfolio to support regulatory and internal requirements in the various regions in which it operates. The value of regulatory liquid assets held through the September 2019 quarter was $143 billion which consisted of $88 billion of HQLA. The Group also holds alternative liquid assets (ALA) which are pools of internally securitised mortgages and other non-HQLA securities. ALAs are a source of contingent liquidity used to collateralise the CLF or are repo-eligible securities with the Reserve Bank of New Zealand. The average value of ALAs held over the September 2019 quarter was $55 billion.

A detailed breakdown of quarterly average net cash outflows is provided in the Pillar 3 Report.

Credit Ratings

Entities in the Group are rated by S&P Global Ratings, Moody's Investors Service and Fitch Ratings.

Dividends

The directors have determined a final dividend of 83 cents per fully paid ordinary share, 100% franked, payable on 12 December 2019. The proposed payment amounts to approximately $2,393 million. The Group periodically adjusts the Dividend Reinvestment Plan (DRP) to reflect the capital position and outlook. The Group will apply a 1.5% discount on the DRP, with no participation limit.

Dividends paid since the end of the previous financial year:

- The final dividend for the year ended 30 September 2018 of 99 cents per fully paid ordinary share, 100% franked, paid on 14 December 2018. The payment amount was $2,707 million.
- The interim dividend for the year ended 30 September 2019 of 83 cents per fully paid ordinary share, 100% franked, paid on 3 July 2019. The payment amount was $2,333 million.

Information on the dividends paid and determined to date is contained in *Note 28 Dividends and distributions* of the financial statements. The franked portion of these dividends carries Australian franking credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%. New Zealand imputation credits have also been attached to the dividend at a rate of NZ$0.15 per share. Franking is not guaranteed. The extent to which future dividends on ordinary shares and distributions on frankable hybrids will be franked will depend on a number of factors, including capital management activities and the level of profits generated by the Group that will be subject to tax in Australia.

Review of, and Outlook for, the Group Operating Environment

Global Business Environment

Global economic growth has slowed in calendar year 2019, likely to its slowest pace since calendar year 2009 - below the average rate of growth recorded since calendar year 1980. The easing in growth has been broad based, including:

- An easing in US economic growth.
- A slowdown in the Euro-zone, particularly in Germany.
- A sharp downturn in Indian economic growth.
- A US-China trade dispute related decline in growth across much of the East Asian region.
- A continuation of the decline in China's growth rate even as policy moves to offset the impact of the US-China dispute.
- A steep drop in economic growth in Latin America.

In response to the slowdown in global growth, many central banks have loosened monetary policy:

- The US Federal Reserve cut the federal funds rate target range by 75bps between July and October 2019.
- The European Central Bank cut its deposit rate in September, and announced a restart of its quantitative easing (QE) program in November.
- A range of Emerging Market central banks have also reduced their policy rate.

The action being taken by central banks would be expected to help stabilise growth. However, there are a range of risks around the global outlook. How the US-China trade dispute and other trade issues will evolve is unclear. Other geo-political risks include the uncertainty around Brexit, ongoing protests in Hong Kong, and oil supply disruptions in the middle-east.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Australian Economy

The Australian economy grew by 1.4% over the year to June 2019, its weakest growth since 2009. The annual growth rate reflects:
- Household weakness, with consumption growth subdued and residential dwelling investment falling.
- Strong growth in public consumption and continuing, but more moderate, growth in public investment (excluding asset transfers with the private sector).
- A decline in business investment (excluding asset transfers with the public sector), with modest growth in non-mining investment offset by a further decline in mining investment. However, mining investment stabilised in the last quarter.
- A more moderate pace of export volume growth.

Overall, domestic demand is being supported by government spending while private sector demand is weak.
- Private sector demand declined by 0.3% over the year to June 2019, the weakest it has been since 2009.
- Business conditions have trended down since mid 2018 and in September 2019 were below average.

While there is a disparity in conditions across industries and geographies, the slowdown in business conditions has been broad based. Retail sector conditions are particularly weak.

In US dollar terms, the RBA commodity price index in October 2019 was 5.6% lower than the same month a year ago. In Australian dollar terms, the index fell by 1.3% over the year to October 2019, but still remains relatively high compared with the last several years.

Agricultural prices are at generally reasonable levels, although the NAB Rural Commodities Index declined 3.5% (Australian dollar terms) over the year to September 2019. Seasonal conditions are a major challenge in many areas. Most of New South Wales and parts of Queensland continue to experience severe drought. The Bureau of Meteorology's outlook for a dry spring-early summer period is a serious concern.

Year-average GDP growth is expected to be only around 1.7% in calendar year 2019, but some improvement is expected in 2020 and 2021 with growth projected to rise above 2.0% but remain below trend. The key dynamics are a weak household sector (due in part to sluggish household income growth and high debt levels), with only modest growth in consumption and declining dwelling investment. Public spending, business investment and, in the near term, exports are expected to support growth.

With growth expected to be below trend, the unemployment rate is expected to rise slightly. However, for now, the labour market remains reasonably healthy:
- Employment growth is above the rate of working-age population growth.
- While the unemployment rate has drifted up from 4.9% in February 2019 to 5.2% in September 2019 it is still below its average over the last twenty years. However, underemployment remains elevated.
- Annual wage growth has strengthened a little since mid-2017, but remains low by historical standards.

Dwelling prices in Australian capital cities have stabilised:
- The CoreLogic hedonic dwelling price index for the eight capital cities declined between September 2017 and June 2019, but has since increased through to October 2019.
- The turnaround is evident in Sydney, Melbourne and Brisbane; while in October dwelling prices were still lower than a year ago they have increased in recent months.
- Prices have continued to fall in Perth, and there has also been a modest fall in Adelaide dwelling prices since December 2018.

Total system credit growth has eased since September 2018:
- Annual housing credit growth was 3.1% in September 2019, down from 5.2% last September. Growth in both owner occupier and investor credit slowed over this period.
- Annual business credit growth was 3.3% in September 2019, down from 4.4% in September 2018 and other personal credit continues to decline.

The RBA reduced the Cash Rate by a total of 75 basis points between June and October 2019. It expects an extended period of low interest rates will be required and has stated that it is ready to ease monetary policy further if needed. With inflation below target and the prospect of a deterioration in the labour market, a further reduction in the Cash Rate is expected and there is a possibility of 'unconventional' monetary policy action. How far the RBA may have to ease monetary policy will be influenced by Federal government fiscal policy as well as global developments.

New Zealand Economy

Over the year to the June quarter 2019, GDP grew by a modest 2.1%, down from the 3.2% pace of growth seen a year earlier. Factors behind the easing in growth include:
- Capacity constraints faced by business, highlighted by a low unemployment rate.
- Weak business confidence, and pressure on profits, constraining business investment.
- A slowing in population growth as net inward migration has eased.

New Zealand is also facing a challenging international environment, reflected in slowing global growth. However, while it may be a factor in the decline in business confidence, at this stage the fall-out remains contained as the terms-of-trade remains at a high level and export volumes have been increasing.

Reflecting concerns over the growth outlook for the economy, as well as low inflation, the Reserve Bank of New Zealand (RBNZ) reduced the Official Cash Rate (OCR) at its May 2019 (by 25 basis points) and August 2019 (by 50 basis points) meetings. The easing in monetary policy will provide support to the economy, as should fiscal policy.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Annual average GDP growth is expected to be 2.2% in calendar year 2019, and at a similar or slightly lower level over the following two years.

Over the year to the June quarter 2019, consumption growth was solid, as was growth in government spending, but business investment was weak, only growing by 0.3%, and export volume growth was modest. Over this period, residential building investment was also solid with above-average growth of 5.2%. The number of building consents continues to trend upwards and in September 2019 was at a high level, indicating further increases in residential investment is likely.

Commodity export prices increased by 7.2% in world price terms over the twelve months to October 2019, and by 9.7% in NZ dollar terms.
- International dairy export prices have increased by 12.8% over the year to October 2019 and are close to their 10 year average. Fonterra's 2018/19 farmgate milk price was NZ$6.35 per kg milk solids, and it expects an improved result (NZ$6.55-7.55) for the 2019/20 season.
- Export prices for other commodities are generally at solid levels, although, horticultural, aluminium and forestry product prices have declined from their calendar year 2018 peaks.

Housing market conditions have been subdued but have recently shown some signs of strengthening:
- The REINZ's House Price Index grew by 3.6% over the year to September 2019, but has grown by 3.1% over the last three months alone. Similarly prices in Auckland are lower than a year ago but have risen in recent months. House price growth has been much stronger in some other localities, at 10% or more over the year to September.
- Sales volumes rose by 3.3% over the year to September 2019.
- According to the RBNZ, factors that may have weighed on house prices include tighter restrictions on non-resident purchases, affordability constraints, lower net immigration and elevated dwelling construction. Lower interest rates should provide support to prices.

The labour market is healthy:
- While the unemployment rate increased in the September quarter 2019 to 4.2%, from the eleven year low reached in the June quarter, it remains relatively low.
- However, employment growth has slowed in recent years. In the September quarter 2019, employment was 0.9% higher than the same time a year ago.
- Wage growth has been increasing.

Overall system credit growth was 5.6% over the year to September 2019, up from 5.2% the same month a year ago.
- This reflects stronger business credit growth (excluding agriculture), although there is a high degree of volatility month-to-month, and an acceleration in housing credit growth.
- In contrast, personal consumer credit growth has slowed considerably.

Outlook

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

Disclosure on Risk Factors

Risks specific to the Group

Set out below are the principal risks and uncertainties associated with the Company and the Group. It is not possible to determine the likelihood of these risks occurring with any certainty. However, the risk in each category that the Company considers most material is listed first, based on the information available at the date of this Report and the Company's best assessment of the likelihood of each risk occurring and potential magnitude of the negative impact to the Group should such risk materialise. In the event that one or more of these risks materialise, the Group's reputation, strategy, business, operations, financial condition and future performance could be materially and adversely impacted.

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

Strategic Risk

Strategic risk is the risk associated with the pursuit of the Group's strategic objectives including the risk that the Group fails to execute its chosen strategy effectively or in a timely manner.

Strategic initiatives may fail to be executed, may not deliver all anticipated benefits and may change the Group's risk profile.

The Group's corporate strategy sets its purpose, vision and objectives, and focuses on:
- Becoming the best business bank.
- Simplifying the Group's business to improve efficiency and better service its customers.
- Pursuing new and emerging growth opportunities.
- Attracting and developing people to create a high performing culture.

The Group prioritises, and invests significant resources in, the execution of initiatives that are aligned to its strategy, including transformation and change programs. These programs focus on technology, infrastructure, business improvement and cultural transformation. There is a risk that these programs may not realise some or all of their anticipated benefits. These programs may also increase operational, compliance and other risks. Any failure by the Group to deliver in accordance with its strategy or to deliver

OPERATING AND FINANCIAL REVIEW (CONTINUED)

these strategic programs effectively, may result in material losses to the Group, or a failure to achieve anticipated benefits, and ultimately, may adversely impact the Group's operations and financial performance and position.

The Group faces intense competition.

There is substantial competition across the markets in which the Group operates. The Group faces competition from established financial services providers as well as new market entrants, including foreign banks and non-bank competitors with lower costs and new operating and business models. In addition, evolving industry trends and rapid technology changes may impact customer needs and preferences and the Group may not predict these changes accurately or quickly enough, or have the resources and flexibility to adapt in sufficient time to meet customer expectations and keep pace with competitors.

The Australian Commonwealth Government (the Australian Government) passed legislation in August 2019 to establish a 'Consumer Data Right' which seeks to improve consumers' ability to compare and switch between products and services. It is proposed to apply to the banking sector from February 2020. These reforms (referred to as 'Open Banking') are expected to reduce the barriers to new entrants into, and increase competition in, the banking industry in Australia. Progress is also being made towards Open Banking in New Zealand (NZ).

Ongoing competition for customers can lead to compression in profit margins and loss of market share, which may ultimately impact on the Group's financial performance and position, profitability and returns to investors.

The Group's intended divestment of its Advice, Platform & Superannuation and Asset Management businesses may not proceed and there are risks in executing the divestment.

The Group intends to divest its Advice, Platform & Superannuation and Asset Management businesses (the MLC Wealth Divestment). The Group's decision to proceed with, and its ability to execute, the MLC Wealth Divestment is subject to a number of factors, including market conditions, the impact of regulatory change and investigations (including any implications of the findings of the Final Report of the Royal Commission), the cost and complexity of separation, and obtaining Board and regulatory approvals.

If the Group does proceed with the MLC Wealth Divestment, it will incur costs associated with the transaction. In addition, the MLC Wealth Divestment will result in the Group exiting a financial services market and accordingly will decrease the size of the Group's operations. This will have a consequential impact on the Group's revenues and potentially its profitability and returns to investors.

If the Group decides not to, or is unable to, proceed with the MLC Wealth Divestment, it will still incur costs that it is unable to recover. In addition, the terms of the MLC Wealth Divestment, and the execution of its separation may create risks and uncertainty for the Group and its customers, aligned advisers, employees, suppliers and other counterparties.

Risks may arise from pursuing acquisitions and divestments.

The Group regularly considers a range of corporate opportunities, including acquisitions, divestments, joint ventures and investments.

Pursuit of corporate opportunities inherently involves transaction risks, including over-valuation of an acquisition or investment or under-valuation of a divestment, and exposure to reputational damage. The Group may encounter difficulties in integrating or separating businesses, including failure to realise expected synergies, disruption to operations, diversion of management resources or higher than expected costs. These risks and difficulties may ultimately have an adverse impact on the Group's financial performance and position.

The Group may incur unexpected financial losses following an acquisition, joint venture or investment if the business it invests in does not perform as planned or causes unanticipated changes to the Group's risk profile. Additionally, there can be no assurance that employees, counterparties, suppliers, customers and other relevant stakeholders will remain with an acquired business following the transaction and any failure to retain such stakeholders may have an adverse impact on the Group's overall financial performance and position.

The Group may also have ongoing exposures to divested businesses, including through the provision of continued services and infrastructure or an agreement to retain certain liabilities of the divested businesses through warranties and indemnities, which may have an adverse impact on the Group's business and financial performance and position.

In particular, specific risks exist in connection with the sale of 80% of MLC Limited to Nippon Life Insurance Company (Nippon Life) in 2016. The Company gave certain covenants, warranties and indemnities in favour of Nippon Life and MLC Limited, a breach or triggering of which may result in the Company being liable to Nippon Life or MLC Limited.

The parties also entered into long-term agreements for the distribution of life insurance products and the continued use of the MLC brand by MLC Limited. The duration and nature of these agreements give rise to certain risks, including that changes in the regulatory or commercial environment impact the commercial attractiveness of these agreements. These agreements also limit future opportunities for the Company through non-compete arrangements.

The Company agreed to take certain actions to establish MLC Limited as a standalone entity, including the provision of transitional services, as well as support for data migration activities and the development of technology systems. As this work is yet to be completed, there is a risk that

OPERATING AND FINANCIAL REVIEW (CONTINUED)

implementation costs may ultimately prove higher than anticipated. The Company may also be liable to MLC Limited or Nippon Life if it fails to perform its obligations in accordance with the agreements relating to these matters. If implementation costs are higher than expected, or if the Company fails to perform its obligations in accordance with the relevant agreements, there may be an adverse impact on the Group's financial performance and position.

Credit Risk

Credit risk is the risk that a customer will fail to meet its obligations to the Group in accordance with agreed terms. Credit risk arises from both the Group's lending activities and markets and trading activities.

A decline in the residential property market may give rise to higher losses on defaulting loans.

Lending activities account for most of the Group's credit risk. The Group's lending portfolio is largely based in Australia and NZ. Residential housing loans and commercial real estate loans constitute a material component of the Group's total gross loans and acceptances. A decline in the value of residential property has been observed in some areas in Australia. A range of factors could contribute to further declines in residential property prices. This includes regulatory changes which may impact the availability of credit, shifts in government policies that are less favourable to immigration and overseas investment, changes to taxation policy and rising unemployment. If this occurs, the declining value of the residential property used as collateral (including in business lending) may give rise to greater losses to the Group resulting from customer defaults, which, in turn, may impact the Group's financial performance and position, profitability and returns to investors. The most significant impact is likely to be experienced by residential mortgage customers in high loan-to-value-ratio brackets.

Adverse business conditions in Australia and NZ, particularly in the agriculture sector, the consumer facing sector, or both, may give rise to increasing customer defaults.

The Group has a large share of the business lending market in Australia and NZ. Should adverse business conditions lead to defaults by business customers in these markets, the Group may experience an adverse impact on its financial performance and position.

Specifically, the Group has a large market share in the Australian and NZ agricultural sectors, particularly the dairy sector in NZ. Volatility in commodity prices, milk prices, foreign exchange rate movements, disease and introduction of pathogens and pests, export and quarantine restrictions, and extreme weather events may negatively impact these sectors. This may result in increased losses to the Group from customer defaults, and ultimately may have an adverse impact on the Group's financial performance and position. Customers of the Group whose businesses are in consumer facing industries are also confronting challenges including high levels of household debt, low wage growth and the recent decline in house prices weighing on consumer confidence and impacting their business' performance. These factors may give rise to an increase in customer defaults, ultimately affecting the Group's financial performance and position, profitability and returns to investors.

Climate change and extreme climate patterns may lead to increasing customer defaults and may decrease the value of collateral.

Credit risk may arise as a result of climate change, including extreme weather events affecting property values or business operations, the effect of new laws and government policies designed to mitigate climate change, and the impact on certain customer segments as the economy transitions to renewable and low-emission technology. There is a risk of increased levels of customer default in affected business sectors. The impact of this on the Group may be exacerbated by a decline in the value and liquidity of assets held by the Group as collateral in these sectors, which may impact the Group's ability to recover under defaulting loans.

For example, parts of eastern Australia are experiencing severe drought conditions. The impact of these conditions is expected to extend beyond primary producers, to customers who are suppliers to the agricultural sector, and to those who reside in and operate businesses within regional communities. Extreme weather events and other climate patterns in other parts of Australia may have similar impacts on other business sectors. These impacts may increase current levels of customer defaults, thereby increasing the credit risk facing the Group and adversely impacting the Group's financial performance and position, profitability and returns to investors.

The Group's losses may differ materially from its provisions which may impact its financial performance and position.

The Group provides for expected losses from loans, advances and other assets. Estimating losses in the loan portfolio is, by its very nature, uncertain. The accuracy of these estimates depends on many factors, including general economic conditions, forecasts and assumptions, and involves complex modelling and judgements. If the assumptions upon which these assessments are made prove to be inaccurate, the provisions for credit impairment may need to be revised. This may adversely impact the Group's financial performance and position.

The Group may be adversely impacted by macro-economic and geopolitical risks and financial market conditions which pose a credit risk.

The majority of the Group's businesses operate in Australia and NZ, with branches in Asia, the United Kingdom (UK) and the United States (US). Levels of borrowing are heavily dependent on customer confidence, employment trends, market interest rates, and other economic and financial

OPERATING AND FINANCIAL REVIEW (CONTINUED)

market conditions and forecasts most relevantly for the Group in Australia and NZ, but also in the global locations in which the Group operates.

Domestic and international economic conditions and forecasts are influenced by a number of macro-economic factors, such as: economic growth rates; cost and availability of capital; central bank intervention; inflation and deflation rates; level of interest rates; yield curves; market volatility; and uncertainty. Deterioration in any of these factors may lead to the following negative impacts on the Group:

- Increased cost of funding or lack of available funding.
- Deterioration in the value and liquidity of assets (including collateral).
- Inability to price certain assets.
- An increase in customer or counterparty default and credit losses.
- Higher provisions for credit impairment.
- Mark-to-market losses in equity and trading positions.
- Lack of available or suitable derivative instruments for hedging purposes.
- Lower growth in business revenues and earnings.
- Increased cost of insurance, lack of available or suitable insurance, or failure of the insurance underwriter.

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

The following macro-economic and financial market conditions are currently of most relevance to the credit risk facing the Group and may give rise to slower revenue growth and/or increasing customer defaults:

- Global economic growth is trending downwards which may create credit risk for the Group. The Group's key markets of Australia and NZ are small, open economies where national income (and with it, the capacity for businesses and households to service debt) is impacted by global trends. The current global economic cycle peaked in early 2018 and growth has slowed since this time, due to fading fiscal stimulus, the impact of US-China trade tensions, and tighter monetary policy in the US, Canada and the UK, among other jurisdictions.
- In response to weakening growth, some central banks, including the Reserve Bank of Australia and the US Federal Reserve, have eased monetary policy and indicated further rate cuts could occur. Given extremely low policy rates in some countries, policy easing may also involve additional quantitative easing. Policy easing would be expected to reduce short-term downside risks to growth, but risks building on existing imbalances in various asset classes and regions. Policy easing may also reduce the impetus for highly geared borrowers to deleverage thereby increasing the credit risk posed to the Group by these highly geared customers.
- As a key trading partner, China's economic growth is important to Australia and NZ, with export income and business investment exposed to any sharp slowdown in the rapid pace of Chinese economic growth. China's high and growing debt burden presents a risk to its medium-term growth prospects. Due to its export mix, Australia's economy is exposed to any sudden downturn in China's domestic investment in business, infrastructure or housing. Any such downturn could therefore have a negative impact on the Group's customers who are exposed to these sectors, and may give rise to increasing levels of customer defaults.
- The ongoing trade tensions between the US and China present additional uncertainty that poses risks to global economic growth. There remains the possibility of further trade measures that will negatively impact global economic growth. Although China is the primary target of US trade measures, value chain linkages mean that other emerging markets, primarily in Asia, may also be impacted. A number of emerging markets in East Asia are major trading partners with Australia and NZ and accordingly a negative impact on their economies may increase the credit risk facing the Group.
- Geopolitical risks continue to present uncertainty to the global economic outlook, with negative impacts on consumption and business investment. An increasing fragmentation of, and a rise in populism in, many major democratic economies have led to difficulties in policy implementation. Protests in Hong Kong are creating political tensions between the Hong Kong Special Administrative Region and mainland China. The uncertainty surrounding the UK's departure from the European Union continues, with a general election scheduled prior to the recently extended deadline, with the major parties offering differing ways forward for Brexit. In addition, there are a range of other geopolitical risks, particularly given the ongoing uncertainty around the Korean Peninsula, South China Sea and US sanctions on Iran.
- Australia's economic growth has slowed in 2019, which is largely a reflection of weakness in household demand. Wages growth has been weak, and if the slowdown in growth persists, unemployment is expected to rise. NZ's economic growth has also slowed. A slowdown in economic growth in Australia and NZ and any resulting increase in unemployment may negatively impact debt servicing levels, increase customer defaults and negatively impact the Group's financial performance and position and its profitability.
- As commodity exporting economies, Australia and NZ are exposed to shifts in global commodity prices that can be sudden, sizeable and difficult to predict. Fluctuations in commodity markets can affect key economic variables like national income tax receipts and exchange rates. Previous sharp declines in commodity prices in Australia and NZ were driven by sub-trend global growth constraining demand, combined with increases in commodity supply. Commodity price volatility remains substantial and given the Group's sizeable exposures to commodity producing and trading businesses, this

OPERATING AND FINANCIAL REVIEW (CONTINUED)

volatility poses a significant source of credit risk to the Group.

Market Risk

Market risk is the risk of loss from the Group's trading activities. The Group may suffer losses as a result of a change in the value of the Group's positions in financial instruments or their hedges due to adverse movements in market prices. Adverse price movements impacting the Group may occur in credit spreads, interest rates, foreign exchange rates, and commodity and equity prices, in particular during periods of heightened market volatility or reduced liquidity.

Credit spread risk is the risk of the Group's trading book being exposed to movements in the value of securities and derivatives as the result of changes in the perceived credit quality of the underlying company. Credit spread risk accumulates in the Group's trading book when it provides risk transfer services to customers seeking to buy or sell fixed income securities (such as corporate bonds). The Group may also be exposed to credit spread risk when holding an inventory of fixed income securities in anticipation of customer demand or undertaking market-making activity (i.e. quoting buy and sell prices to clients) in fixed income securities.

Interest rate risk is the risk of the Group's trading book being exposed to changes in the value of securities and derivatives as the result of changes in interest rates. The Group's trading book accumulates interest rate risk when the Group provides interest rate hedging solutions for clients, holds interest rate risk in anticipation of customer requirements or undertakes market-making activity in fixed income securities or interest rate derivatives.

The occurrence of any event giving rise to a material trading loss may have a negative impact on the Group's financial performance and financial position.

Balance Sheet and Liquidity Risk

Balance sheet and liquidity risk comprises key banking book structural risks of the Group, such as liquidity risk, funding risk, interest rate risk, capital risk and foreign exchange risk.

The Group is exposed to funding and liquidity risk.

Funding risk is the risk that the Group is unable to raise short and long-term funding to support its ongoing operations, strategic plans and objectives. The Group accesses domestic and global capital markets to help fund its business, in addition to using customer deposits. Dislocation in any of these capital markets, reduced investor interest in the Group's securities and/or reduced customer deposits, may adversely affect the Group's funding and liquidity position, increase the cost of obtaining funds or impose unfavourable terms on the Group's access to funds, constrain the volume of new lending, or adversely affect the Group's capital position.

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of wholesale borrowings and loan capital as it matures, the payment of interest on borrowings and the payment of operational expenses and taxes. The Group must also comply with prudential and regulatory liquidity obligations across the jurisdictions in which it operates. Any significant deterioration in the Group's liquidity position may lead to an increase in the Group's funding costs, constrain the volume of new lending, result in the Group drawing upon its committed liquidity facility with the Reserve Bank of Australia or cause the Group to breach its prudential or regulatory liquidity obligations. This may adversely impact the Group's reputation and financial performance and position.

The Group's capital position may be constrained by prudential requirements.

Capital risk is the risk that the Group does not hold sufficient capital and reserves to cover exposures and to protect against unexpected losses. Capital is the cornerstone of the Group's financial strength. It supports an authorised deposit-taking institution's (ADI's) operations by providing a buffer to absorb unanticipated losses from its activities.

Compliance with prudential capital requirements in the jurisdictions in which the Group operates and any further changes to these requirements may:
- Limit the Group's ability to manage capital across the entities within the Group.
- Limit payment of dividends or distributions on shares and hybrid instruments.
- Require the Group to raise more capital (in an absolute sense) or raise more capital of higher quality.
- Restrict balance sheet growth.

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

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

Credit ratings are an assessment of a borrower's creditworthiness and may be used by market participants in evaluating the Group and its products, services and securities. Credit rating agencies conduct ongoing review activities, which can result in changes to credit rating settings and outlooks for the Group, or sovereign jurisdictions where the Group conducts business. Credit ratings may be affected by operational and market factors, or changes in the credit rating agency's rating methodologies.

A downgrade in the credit ratings or outlook of the Group, the Group's securities, or the sovereign rating of one or more of the countries in which the Group operates, may increase the Group's cost of funds or limit access to capital

OPERATING AND FINANCIAL REVIEW (CONTINUED)

markets. This may also cause a deterioration of the Group's liquidity position and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. A downgrade to the Group's credit ratings relative to peers may also adversely impact the Group's competitive position and financial performance and position.

The Group's financial performance and capital position may be adversely impacted by interest rate fluctuations.

Interest rate risk is the risk to the Group's financial performance and capital position caused by changes in interest rates. Factors which may affect the level of interest rate risk include all on-balance sheet and off-balance sheet items that create an interest rate risk exposure within the Group. As interest rates and yield curves change over time, including negative interest rates in certain countries in which the Group operates, the Group may be exposed to a loss in earnings and economic value due to the interest rate profile of its balance sheet. Such exposure may arise from a mismatch between the maturity profile of the Group's lending portfolio compared to its deposit portfolio (and other funding sources), as well as the extent to which lending and deposit products can be repriced as interest rates approach zero or become negative, thereby impacting net interest margin.

The Group may fail to or be unable to sell down its underwriting risk.

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

The value of the Group's banking book may be adversely impacted by foreign exchange rates.

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

The Group's ownership structure includes investment in overseas subsidiaries and associates which gives rise to foreign currency exposures, such as repatriation of capital and dividends. The Group also conducts business outside of Australia and transacts with customers, banks and other counterparties in a number of different currencies. The Group's businesses may therefore be affected by a change in currency exchange rates, or a change in the reserve status of any of these currencies.

The Group's financial statements are prepared and presented in Australian dollars, and any adverse fluctuations in the Australian dollar against other currencies in which the Group invests or transacts and generates profits (or incurs losses) may adversely impact its financial performance and position.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This includes legal risk, but excludes strategic and reputation risk.

Disruption to technology may adversely impact the Group's reputation and operations.

Most of the Group's operations depend on technology, and therefore the reliability and security of the Group's information technology systems and infrastructure are essential to the effective operation of its business and consequently to its financial performance and position. The reliability of technology may be impacted by the complex technology environment, failure to keep technology systems up-to-date, an inability to restore or recover systems in acceptable timeframes, or a physical or cyber-attack.

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

Any disruption to the Group's technology (including disruption to the technology systems of the Group's external providers) may be wholly or partially beyond the Group's control and may result in: operational disruption; regulatory enforcement actions; customer redress; litigation; financial losses; theft or loss of customer data; loss of market share; loss of property or information; or may adversely impact the speed and agility in the delivery of change and innovation.

In addition, any such disruption may adversely affect the Group's reputation, including the view of regulators or ratings agencies, which may result in loss of customers, a reduction in share price, ratings downgrades and regulatory censure or penalties. Social media commentary may further exacerbate such adverse outcomes for the Group and negatively impact the Group's reputation.

Privacy, security and data breaches may adversely impact the Group's reputation and operations.

The Group processes, stores and transmits large amounts of personal and confidential information through its technology systems and networks. Threats to information security are constantly evolving and techniques used to perpetrate cyber-attacks are increasingly sophisticated.

The Group may not be able to anticipate a security threat, or be able to implement effective measures to prevent or minimise the resulting damage. As with other business activities, the Group uses select external providers (in Australia and overseas) to store confidential data and to develop and provide its technology services, including the increasing use of cloud infrastructure.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

A breach of the security at any of these external providers or within the Group may be wholly or partially beyond the control of the Group and may result in theft or loss of customer data, a breach of privacy laws and subsequent regulatory enforcement actions, customer redress, litigation, or financial losses. This may adversely impact the financial performance and position of the Group.

In addition, any such breach may adversely affect the Group's reputation, including the view of regulators or ratings agencies, which may result in loss of customers, a reduction in share price, ratings downgrades and regulatory censure or penalties. Social media commentary may further exacerbate such adverse outcomes for the Group and negatively impact the Group's reputation.

Deficient policies, processes, infrastructure and models give rise to a significant risk to the Group's operations.

The Group's business involves the execution of a large number of complex transactions. The Group is reliant on its policies, processes and supporting infrastructure functioning as designed, along with third parties appropriately managing their own operational risk and delivering services to the Group as required. A failure in the design or operation of these policies, processes and infrastructure, failure of the Group to manage external service providers, or the disablement of a supporting system all pose a significant risk to the Group's operations and consequently its financial performance and reputation. Reputational damage may adversely impact the Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities. Reputational damage may also result in a higher risk premium being applied to the Group, and impact the cost of funding the Group's operations or its financial condition. Further, reputational damage may result in regulators requiring the Group to hold additional capital, pay fines or incur additional costs, including costs to undertake remedial action. These impacts may affect the viability of some or all of the Group's business activities.

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

The Group is exposed to the risk of human error.

The Group's business, including the internal processes and systems that assist in business decisions, relies on inputs from its employees, agents and third party vendors. The Group is exposed to operational risk due to process or human errors including incorrect or incomplete data capture and records maintenance, incorrect or incomplete documentation to support activities, or inadequate design of processes or controls. The Group uses select external providers (in Australia and overseas) to provide services to the Group and is exposed to similar risks arising from such failures in the operating environment of its external providers. The materialisation of any of these risks could lead to direct financial loss, loss of customer, employee or commercially sensitive data, regulatory penalties and reputational damage.

The Group may not be able to attract and retain suitable personnel.

The Group is dependent on its ability to attract and retain key executives, employees and Board members with a deep understanding of banking and technology, who are qualified to execute the Group's strategy, as well as the technology transformation the Group is undertaking to meet the changing needs of its customers. Weaknesses in employment practices, including diversity, discrimination and workplace health and safety, are sources of operational risk that can impact the Group's ability to attract and retain qualified personnel with the requisite knowledge, skills and capability.

The Group's capacity to attract and retain key personnel is dependent on its ability to design and implement effective remuneration structures. This process may be constrained by regulatory requirements (particularly in the highly regulated financial services sector), as well as investor expectations, which may be somewhat disparate.

The unexpected loss of key resources or the inability to attract personnel with suitable experience may adversely impact the Group's ability to operate effectively and efficiently, or to meet the Group's strategic objectives.

External events may adversely impact the Group's operations.

Operational risk can arise from external events such as natural disasters, biological hazards or acts of terrorism. The Group has branches in regional areas in Australia (including in Queensland, Western Australia and New South Wales) that are prone to seasonal natural disasters, including fires and floods.

In addition, the Group has branches and office buildings in Christchurch and Wellington in NZ, which have experienced significant earthquakes and aftershocks in recent years and which may be exposed to the risk of future earthquakes.

Given the Group's physical presence in the central business districts of major cities in Australia and NZ, it may also be exposed to the risk of a terrorist attack.

External events such as natural disasters, biological hazards and acts of terrorism may cause property damage and business disruption, which may adversely impact the Group's financial performance. In addition, if the Group is unable to manage the impacts of such external events, it may lead to reputational damage and compromise the Group's ability to provide a safe workplace for its personnel.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

If there is a 'second strike' shareholder vote against the 2019 Remuneration Report and a spill resolution is passed at the 2019 Annual General Meeting, there is a risk of disruption to the governance and oversight of the Group.

At the Company's 2018 Annual General Meeting, the Company's 2018 Remuneration Report received a 'first strike' vote under the Corporations Act. If at least 25% of the votes cast on the resolution to adopt the Company's 2019 Remuneration Report are cast against that resolution, the Company will receive a 'second strike' and be required to put a 'spill resolution' to its shareholders at the Company's 2019 Annual General Meeting. If the 'spill resolution' is passed by a simple majority, then at a subsequent meeting to be held within 90 days of the Company's 2019 Annual General Meeting, all of the Company's directors who approved the Company's 2019 Remuneration Report (other than the CEO) will be required to stand for re-election at the meeting. In the event the Company was to receive a 'second strike', and the spill resolution was passed at its 2019 Annual General Meeting, there is a risk that the composition of the Company's Board may change, causing disruption to the governance and oversight of the Group.

The receipt of a 'second strike' and subsequent passing of a 'spill resolution' may also cause reputational damage to the Group, which may adversely impact the Group's ability to attract and retain customers, employees, and investors in the short and long-term and the ability to pursue new business opportunities.

Compliance Risk

Compliance risk is the risk of failing to understand and comply with relevant laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives.

The Group may be involved in a breach or alleged breach of laws governing bribery, corruption and financial crime.

Supervision, regulation and enforcement in relation to anti-bribery and corruption, anti-money laundering (AML) and counter-terrorism financing (CTF) laws and trade sanctions has increased. In June 2018, Australia's financial intelligence agency, AUSTRAC, reached an agreement with another major Australian bank for a $700 million penalty relating to serious breaches of AML/CTF laws. The Company has reported a number of AML/CTF compliance breaches to relevant regulators and has responded to a number of requests from regulators requiring the production of documents and information. The Group is currently investigating and remediating a number of AML/CTF compliance issues. The potential outcome and total costs associated with the investigation and remediation process remain uncertain. A negative outcome to any investigation or remediation process may adversely impact the Group's reputation and its business, financial position and results of operations. Further, given the large volume of transactions that the Group processes, the undetected failure of internal AML/CTF controls, or the ineffective implementation or remediation of compliance issues, could result in a significant number of breaches of AML/CTF obligations and significant monetary penalties for the Group.

Refer to *Note 29 Contingent liabilities and credit commitments* of the financial statements under the heading *Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) program uplift and compliance issues* for more information.

Matters arising during the Royal Commission may result in legal proceedings against the Group.

The Royal Commission has referred two matters to the Australian Prudential Regulation Authority (APRA) regarding the conduct of the Group's superannuation trustee, NULIS Nominees (Australia) Ltd (NULIS). It is possible that APRA may bring proceedings against NULIS in relation to these matters. In addition, litigation funder IMF Bentham and William Roberts Lawyers recently announced that they are working to bring a class action against NULIS and are seeking customers to register their interest in participating in the class action.

The Royal Commission also referred other instances of potential misconduct to the Australian Securities and Investments Commission (ASIC) for consideration. ASIC subsequently commenced civil proceedings against the Company in relation to its 'Introducer Payment Program', alleging contraventions of the National Consumer Credit Protection Act 2009 in relation to 297 loan applications that were made between 2013 and 2016. The potential outcome and total costs associated with this matter remain uncertain. ASIC may bring further proceedings against the Group in relation to other matters referred to it by the Royal Commission, which may result in the imposition of civil or criminal penalties on the Group or the issuing of a class action or other civil litigation against the Group.

It is also possible that legal actions may be commenced against relevant individuals within the Group.

Any damages awards or penalties may adversely impact the Group's reputation and financial performance and position. Refer to *Note 29 Contingent liabilities and credit commitments* of the financial statements for details in relation to the Group's material legal proceedings and contingent liabilities.

Responsible lending obligations are evolving and may create additional operational complexity for the Group.

The responsible lending obligations applicable to the Group under the National Consumer Credit Protection Act 2009 have evolved in recent years. Changes to these obligations, including their interpretation by the courts, or any increased regulatory and public scrutiny, may require the Group to change its consumer lending processes or procedures. This may lead to additional operational complexity for the Group, as well as increased costs, which may adversely impact the Group's financial performance and position.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Ensuring compliance with laws and regulations that apply to the Group is complex and costly.

The Group is highly regulated and subject to various regulatory regimes which differ across the jurisdictions in which it operates, trades or raises funds.

Ensuring compliance with all applicable laws is complex. There is a risk the Group will be unable to implement the processes and controls required by relevant laws and regulations in a timely manner or that the Group's internal controls will prove to be inadequate or ineffective in ensuring compliance. Any failure to comply with relevant laws and regulations may have a negative impact on the Group's reputation and financial performance and position, and may give rise to class actions, regulatory enforcement or litigation.

In addition, there is significant cost associated with the systems, processes and personnel required to ensure compliance with applicable laws and regulations. Such costs may negatively impact the Group's financial performance and position.

Failure to comply with laws or regulatory requirements may expose the Group to class actions.

There have been a number of domestic and international firms facing high profile enforcement actions for alleged instances of non-compliance with laws or regulatory requirements. In some cases, these enforcement actions have also given rise to class actions. Plaintiff law firm Slater & Gordon has filed a class action in the Federal Court of Australia, alleging that the Company and MLC Limited engaged in unconscionable conduct and misleading and deceptive conduct in connection with the sale of a particular type of consumer credit insurance (being 'NAB Credit Card Cover') and unconscionable conduct in connection with the sale of a second consumer credit insurance product, NAB Personal Loan Cover. Refer to *Note 29 Contingent liabilities and credit commitments* of the financial statements under the heading *Consumer Credit Insurance (CCI)* for more information.

It is possible that class actions may arise against members of the Group in relation to allegations of which the Group is currently aware or other matters of which it is not yet aware. Any class action may impact the Group's reputation, divert management time from operations and affect the Group's financial performance and position, profitability and returns to investors.

The Group may be exposed to losses if critical accounting judgements and estimates are subsequently found to be incorrect.

Preparation of the Group's financial statements requires management to make estimates and assumptions and to exercise judgement in applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses. A higher degree of judgement is required for the estimates used in the calculation of provisions (including for customer-related remediation), the valuation of goodwill and intangible assets, and the fair value of financial instruments. Changes in the methodology or assumptions on which the assessment of goodwill and intangible balances is based, together with expected changes in future cash flows (including changes flowing from current and potential regulatory reforms), could result in the potential write-off of a part or all of that goodwill or intangible balances.

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

The Group may be exposed to litigation and contingent liabilities.

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

Currently, there are a number of ongoing investigations and court proceedings involving the Group. These include matters relating to: the provision of financial advice; the inappropriate charging of fees for services; engaging in regulated credit activities with unlicensed persons; selling practices and advice in relation to consumer credit insurance products and compliance with licence conditions and the National Credit Code. Where appropriate, provisions are held for litigation matters based on a number of assumptions derived from a combination of past experience, forecasts, industry comparison and the exercise of subjective judgement based on (where appropriate) external professional advice. As with other accounting judgements, risks and uncertainties remain in relation to these assumptions and the ultimate costs of redress to the Group. There is inherent uncertainty regarding the possible outcome of any court proceedings involving the Group. It is also possible that further class actions, regulatory investigations or the imposition of new licence conditions could arise in relation to these matters or other matters of which the Group is not yet aware.

A negative outcome to investigations or litigation involving the Group may divert management time from operations and adversely impact the Group's reputation, and financial performance and position. Refer to *Note 29 Contingent liabilities and credit commitments* of the financial statements for details in relation to the Group's material legal proceedings and contingent liabilities.

Conduct Risk

Conduct risk is the risk that any action of the Group, or those acting on behalf of the Group, will result in unfair outcomes for any of the Group's customers.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

The Group is heavily reliant on its employees, contractors and external suppliers acting in an appropriate and ethical way.

Organisational culture can greatly influence individual and group behaviours which can expose an organisation and lead to unfair customer outcomes. The behaviours that could expose the Group to conduct risk include:

- Selling, or unduly influencing customers to purchase, products or services that do not meet their needs.
- Being a party to fraud.
- Non-adherence to applicable requirements or providing financial advice which is not appropriate or in the customers' interests.
- Delays in appropriately escalating regulatory issues.
- Failure to resolve issues and remediate customers in a timely manner.

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

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

A failure of the Group's conduct controls to accurately reflect relevant legal, regulatory or community expectations may adversely impact the Group's reputation, financial performance and position, profitability, operations and returns to investors.

Regulatory Risk

Regulatory risk is the risk of failing to identify or appropriately respond to changes to the regulatory environment or of damaging the Group's standing with its regulators as a result of the Group not meeting regulatory expectations.

Extensive regulatory change poses a significant risk to the Group.

Globally, the financial services and banking industries are subject to a significant and increasing number of regulatory reviews and political scrutiny, including in Australia and NZ. Changes to laws and regulations or their interpretation and application can be unpredictable, are beyond the Group's control, and may not be harmonised across the jurisdictions in which the Group operates.

Regulatory change may result in significant capital and compliance costs, changes to the Group's corporate structure and increasing demands on management, employees and information technology systems. This may also impact the viability of the Group's participation in certain markets, or give rise to the need to divest a part of the Group's business.

The Royal Commission made a considerable number of recommendations, most of which have received political support. The Royal Commission's recommendations are expected to result in significant legislative and regulatory change that will impact the operations of the Group. The Australian Government has committed to a compressed timeframe for introducing the large number of legislative changes required to effect the Royal Commission's recommendations. The compressed timeframe for implementation poses a particular risk to the Group's operations as the necessary controls may not be able to be implemented in a timely and considered manner. Following the Royal Commission, further inquiries and regulatory reviews impacting the financial services industry may be commissioned by the Australian Government, which, depending on their scope, findings and recommendations, may adversely impact the Group.

Other reviews and regulatory reforms currently relevant to the Group which present a potential regulatory risk include:

- APRA's various reforms in relation to loss-absorbing capacity. These include the requirement, due to be implemented by 1 January 2024, that Domestic Systemically Important Banks (D-SIBs) such as the Company, increase total capital by 3% of risk-weighted assets (RWA), which is expected to be satisfied primarily by issuing additional Tier 2 capital. Based on the Group's RWA of $416 billion at 30 September 2019, this requirement represents an incremental increase of $12.5 billion of total capital. In addition, APRA intends to consult on a target of additional capital amounting to a further 1-2% of RWA. The Group's funding costs are expected to increase due to the higher cost of Tier 2 capital issuance relative to senior debt.
- APRA's proposed revisions to the credit risk management framework for ADIs include broadening requirements for credit risk management practices; revising credit standards; and aligning asset classification and provisioning with the Basel Committee on Banking Supervision's (BCBS) recent accounting standard changes and guidance.
- The Reserve Bank of New Zealand (RBNZ) proposal that banks deemed systemically important in NZ (including the Company's subsidiary, Bank of New Zealand (BNZ)) be required to hold Tier 1 capital amounting to 16% of RWA, consisting of a minimum Tier 1 requirement of 6% of RWA and prudential capital buffer of Common Equity Tier 1 equal to 10% of RWA over a proposed five-year staged transition period. It remains unclear the extent to which APRA will incorporate aspects of the RBNZ's proposals as part of its review of the Australian capital framework.
- APRA's ongoing consultation on revisions to the capital framework, reaffirming its intention to strengthen

OPERATING AND FINANCIAL REVIEW (CONTINUED)

banking system resilience by establishing 'Unquestionably Strong' capital ratios. The major Australian banks (including the Company) are expected to meet APRA's 'Unquestionably Strong' target benchmark beginning January 2020. Final revised prudential standards in relation to the risk-weighting framework and other capital requirements are expected to be released in 2020, and may require additional capital to be held by the Group from January 2022.
- The NZ Financial Markets Authority and RBNZ have undertaken a review of conduct and culture in the financial services industry. Alongside industry-wide recommendations released as a result of the review, further specific findings were provided to individual NZ banks (including BNZ) in November 2018. The review has led to a NZ Government announcement in September 2019 that it will introduce legislation to create an oversight regime for regulating conduct in the banking and insurance sectors by the end of 2019.
- The Australian Banking Executive Accountability Regime (BEAR) has been legislated and applies to the Group. The Royal Commission made a number of recommendations regarding BEAR, including to introduce a new accountable person responsibility for end-to-end product value chains within an ADI (including any necessary remediation of customers in respect of an ADI's products). APRA is currently seeking submissions on this proposal, with a target implementation date of 1 July 2020.
- The Australian Government has directed the Australian Competition and Consumer Commission (ACCC) to commence an inquiry into home loan pricing. The ACCC will investigate a wide range of issues, including the rates paid by new and existing customers, how the cost of financing for banks has affected interest rate decisions and the interaction between home loan pricing and rate-setting by the Reserve Bank of Australia. A preliminary report is expected by the end of March 2020, with a final report due on 30 September 2020.

Other material regulatory changes include new requirements for the design and distribution of financial products, responsible lending reforms, and the implementation of Open Banking reforms. In addition, there are a number of other ongoing or proposed regulatory changes and inquiries relevant to the Group such as: changes to the Group entities eligible for inclusion in the Level 1 group for prudential purposes; changes to financial benchmarks; derivatives reform; payments; data protection and privacy laws; data quality; competition inquiries; accounting and reporting requirements; and tax reform.

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

There is a risk of the Group failing to deliver on commitments made to its regulators and to the public or otherwise damaging its relationship with regulators.

In response to the Royal Commission, the Group has made certain public commitments to change the way it operates. In addition, in November 2018, the Group published its self-assessment on governance, accountability and culture to APRA and has undertaken to regularly report on the Group's progress in implementing the findings.

If the Group does not deliver on the matters identified in its self-assessment, fails to deliver on its public commitments following the Royal Commission, or otherwise fails to comply with the representations it makes to the public or to its regulators, this may negatively impact the Group's reputation. Such reputational damage may adversely impact the Group's ability to attract and retain customers or employees in the short and long-term. It may also result in a higher risk premium being applied to the Group, and impact the cost of funding the Group's operations, or its financial performance and position.

The enforcement approach of the Group's principal regulators has changed, resulting in a greater risk of enforcement actions.

A number of measures were recommended by the Royal Commission to improve the effectiveness and oversight of ASIC and APRA in deterring, and imposing appropriate penalties for, misconduct. These included a recommendation for ASIC to change its approach to enforcement, with a focus on instigating court actions in relation to conduct matters where a breach of law is more likely than not, and the matter is in the public interest. Accordingly, the Group may be exposed to a greater risk of enforcement action initiated by its primary regulators, ASIC and APRA, which may result in the imposition of civil or criminal penalties on the Group. The issuing of any such enforcement action, and any subsequent imposition of penalties, may negatively impact on the Group's reputation and financial performance and position.

DIRECTORS' INFORMATION

Directors

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

The Board acknowledges that directors benefit from being involved in a broad range of governance roles provided directors have the capacity to devote sufficient time and effort to fulfil their NAB responsibilities. The Chairman, with the assistance of the Nomination & Governance Committee, has determined each director meets this requirement.

Mr Philip Chronican
BCom (Hons), MBA (Dist), GAICD, SF Fin
Age: 63

Term of office: Non-executive director since May 2016. Chairman of the Board and Chairman of the Board's Nomination & Governance Committee since 15 November 2019. Mr Chronican served as interim Group CEO from 1 March 2019 to 14 November 2019. Director of Bank of New Zealand (a subsidiary of NAB) until 28 February 2019.

Independent: Yes

Skills & Experience: Mr Chronican has more than 37 years of experience in banking and finance in Australia and New Zealand. Mr Chronican was responsible for Australia and New Zealand Banking Group Limited's (ANZ) Australia division, with specific responsibility for ANZ's Retail and Commercial businesses. Prior to joining ANZ, Mr Chronican had a long career at Westpac Banking Corporation (Westpac), where Mr Chronican established his reputation as one of Australia's leading banking executives, in executive roles including Group Executive Westpac Institutional Bank and Chief Financial Officer. Mr Chronican has broad experience in M&A activity and post-merger integration, and has taken an active and public role in advocating for greater transparency and ethics in banking and promoting workforce diversity.

Mr Chronican's other directorship is The Westmead Institute for Medical Research (Chairman).

Mr David Armstrong
BBus, FCA, MAICD
Age: 61

Term of office: Non-executive director since August 2014. Chairman of the Board's Audit & Risk* Committees.
**Chairman since 1 March 2019*.

Independent: Yes

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

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

Mr Peeyush Gupta
AM, BA, MBA, FAICD, AMP (Harvard)
Age: 60

Term of office: Non-executive director since November 2014. Member of the Board's Risk, Remuneration and Nomination & Governance Committees. Director of certain NAB Wealth and Bank of New Zealand subsidiaries (subsidiaries of NAB).

Independent: Yes

Skills & Experience: Mr Gupta has more than 30 years of experience in wealth management. Mr Gupta was a co-founder and the inaugural CEO of IPAC Securities, a pre-eminent wealth management firm spanning financial advice and institutional portfolio management, which was acquired by AXA.

Mr Gupta has extensive corporate governance experience, having served as a director on many corporate, not-for-profit, trustee and responsible entity boards since the 1990s, including experience on Audit, Risk, and Remuneration committees.

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

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

Ms Anne Loveridge
BA (Hons), FCA, GAICD
Age: 58

Term of office: Non-executive director since December 2015. Chairman of the Board's Remuneration Committee and a member of the Board's Nomination & Governance Committee.

Independent: Yes

Skills & Experience: Ms Loveridge has more than 30 years of experience in professional services including as a senior partner in the Financial Services practice at PwC, with

DIRECTORS' INFORMATION (CONTINUED)

expertise in the banking, property, private equity and wealth management sectors. Ms Loveridge has extensive knowledge and understanding of people leadership and development, financial and regulatory reporting and risk management. Ms Loveridge has significant corporate governance experience serving as a director and Chairman on both corporate and not-for-profit entity boards and committees.

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

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

Ms Geraldine McBride
BSc
Age: 58

Term of office: Non-executive director since March 2014. Member of the Board's Audit and Customer Committees.

Independent: Yes

Skills & Experience: Ms McBride has more than 30 years of experience in the technology industry and international business. Ms McBride is a former President of global software company SAP for North America, as well as roles with Dell and IBM. Ms McBride is CEO and Director of MyWave.

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

Mr Douglas McKay
ONZM, BA, AMP (Harvard), CMInstD (NZ)
Age: 64

Term of office: Non-executive director since February 2016. Member of the Board's Nomination & Governance, Audit and Customer Committees. Chairman of Bank of New Zealand (a subsidiary of NAB).

Independent: Yes

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

Directorships of listed entities:
Genesis Energy Limited (since June 2014)
Fletcher Building Limited (since September 2018) (Both listed on the New Zealand Stock Exchange)

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

Ms Ann Sherry
AO, BA, Grad Dip IR, FAICD, FIPAA
Age: 65

Term of office: Non-executive director since November 2017. Chairman of the Board's Customer Committee and a member of the Board's Remuneration Committee.

Independent: Yes

Skills & Experience: Ms Sherry has more than 20 years of experience in executive roles within the banking, tourism and transport industries in Australia and New Zealand, together with significant experience in government and public service. Ms Sherry was Chairman of Carnival Australia, having previously served as CEO and as Executive Chairman. Prior to joining Carnival Australia, Ms Sherry had 12 years' experience with Westpac where she held executive roles including CEO, Westpac New Zealand, CEO, Bank of Melbourne and Group Executive, People & Performance.

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

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

Mr Anthony Yuen
B.Soc.Scs
Age: 69

Term of office: Non-executive director since March 2010. Member of the Board's Audit and Risk Committees. Mr Yuen will retire from the Board following the Company's Annual General Meeting on 18 December 2019.

Independent: Yes

Skills & Experience: Mr Yuen has more than 40 years of experience in international banking and finance. Prior to taking on a strategic investment management role on behalf of Royal Bank of Scotland with Bank of China in 2006, Mr Yuen held senior executive roles, having Asia wide

DIRECTORS' INFORMATION (CONTINUED)

regional responsibility with Bank of America Corporation, National Westminster Bank and The Royal Bank of Scotland.

Mr Yuen's other interests include Hong Kong Red Cross, ABF Hong Kong Bond Index Fund and Membership Committee of the Academy of Finance.

Former Directors

Dr Henry resigned from the Board effective 14 November 2019.

Dr Ken Henry AC, BCom (Hons), PhD, DB h.c, FASSA, FAIIA

***Age:* 61**

Term of office: Non-executive director from November 2011 to November 2019. Chairman from December 2015 to 14 November 2019. Dr Henry was Chairman of the Board's Nomination & Governance Committee.

***Independent*:** Yes

***Skills & Experience*:** Dr Henry has more than 30 years of experience in economics, policy and regulation, governance and leadership. Dr Henry served as the Secretary of the Department of the Treasury and was special adviser to the Prime Minister with responsibility for leading the development of the White Paper on Australia in the Asian Century. Dr Henry conducted the Review into Australia's Future Tax System (the 'Henry Tax Review') commissioned by the Rudd Government.

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

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

Mr Thorburn resigned as Group Chief Executive Officer and Managing Director effective 28 February 2019.

Mr Andrew Thorburn BCom, MBA

***Age*:** 54

Term of office: Director from August 2014 to 28 February 2019.

***Independent*:** No

***Skills & Experience*:** Mr Thorburn has more than 32 years of experience in banking and finance. Mr Thorburn joined NAB in January 2005 as Head of Retail Banking and was appointed Managing Director and CEO of Bank of New Zealand in 2008. Mr Thorburn joined the NAB Group Executive Committee in January 2009 and was appointed Group Chief Executive Officer and Managing Director in August 2014.

Directors appointed subsequent to 30 September 2019

Mr Ross McEwan BBus

Age: 62

Term of office: Appointed as Group Chief Executive Officer and Managing Director effective 2 December 2019.

Independent: No

Skills & Experience: Mr McEwan has more than 30 years of experience in the finance, insurance and investment industries. Mr McEwan is a senior global financial services executive with deep experience in international markets and long-standing knowledge of the Australian banking environment. Mr McEwan also has extensive experience in leading organisations through significant change and recovery. Prior to joining NAB, Mr McEwan was Group CEO of Royal Bank of Scotland from 2013-2019 and CEO UK Retail from 2012-2013. Mr McEwan's experience includes executive roles at Commonwealth Bank of Australia, First NZ Capital Securities and National Mutual Life Association of Australasia / AXA New Zealand.

Ms Kathryn Fagg, AO FTSE, BE(Hons), MCom(Hons), Hon.DBus(UNSW), Hon.DChemEng(UQ)

Age: 58

Term of office: Appointed as a non-executive director effective 16 December 2019.

Independent: Yes

***Skills & Experience*:** Ms Fagg has more than 25 years of senior commercial and operational experience and is a respected and experienced director and Chairman, with extensive leadership experience across a range of industries, including banking. Ms Fagg has been a board member of the Reserve Bank of Australia and held executive roles with Linfox Logistics, Bluescope Steel and ANZ. Ms Fagg has a deep understanding of strategy, leadership, governance and risk, operations, investments, decision-making and corporate development.

***Directorships of listed entities*:**
Boral Limited (since September 2014, Chairman since July 2018)
Djerriwarrh Investments Limited (since May 2014)
Incitec Pivot Limited*(since April 2014)
**Ms Fagg will retire as a director on 20 December 2019.*

Ms Fagg's other directorships include Breast Cancer Network Australia (Chairman), CSIRO, The Grattan Institute, The Myer Foundation and Male Champions of Change.

DIRECTORS' INFORMATION (CONTINUED)

Company Secretaries

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

Mrs Louise Thomson BBus (Dist), FGIA joined the Group in 2000 and was appointed Group Company Secretary in May 2013. She has experience in a wide range of finance, risk, regulatory and governance matters. The Group Company Secretary supports the Board to enable the Board to fulfil its role.

Ms Penelope MacRae BA (Hons), LLB (Hons) joined the Group in 2011 as a Senior Corporate Lawyer and was appointed Company Secretary in December 2016. She is the Secretary of the Board Risk Committee and manages the NAB Group's Risk Management Committees. She has experience in a wide range of corporate, legal, governance, risk and regulatory matters.

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

Ms Tricia Conte BCom, LLB (Hons) joined the Group in 2006 and was appointed Company Secretary in November 2018. She is the Secretary to the Board Audit Committee and a Senior Legal Counsel who advises the Group on a wide range of legal, corporate, governance and regulatory matters.

Directors' and officers' indemnity

NAB's constitution

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

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

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

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

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

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

Directors' and officers' insurance

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

DIRECTORS' INFORMATION (CONTINUED)

Directors' attendances at meetings

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

	Board		Audit Committee		Risk Committee		Remuneration Committee		Nomination & Governance Committee	Customer Committee[(1)]	
	Scheduled	**Other**	**Scheduled**	**Other**	**Scheduled**	**Other**	**Scheduled**	**Other**	**Scheduled**	**Scheduled**	**Other**
Number of meetings held (A,B,C)	**15**	**9**	**12**	**7**	**11**	**5**	**11**	**11**	**5**	**4**	**1**
Ken Henry	15	9	-	-	-	-	-	-	5	-	-
David Armstrong[(2)]	15	9	12	7	11	5	-	-	-	-	-
Philip Chronican – *Non-executive director (1 October 2018 to 28 February 2019)*[(3)]	7	3	-	-	4	2	5	3	-	-	-
Philip Chronican – *Interim Group CEO (1 March 2019 to 30 September 2019)*[(3)]	8	6	-	1	7	2	6	8	1	3	1
Peeyush Gupta[(4)]	15	8	-	-	11	5	11	11	5	-	-
Anne Loveridge	15	9	-	-	-	-	11	11	5	-	-
Geraldine McBride[(5)]	15	8	11	5	-	-	-	-		4	1
Doug McKay[(6)]	15	7	12	6	-	-	-	-	5	4	1
Ann Sherry[(7)]	14	8	-	-	-	-	11	11	-	4	1
Anthony Yuen	15	8	12	7	11	5	-	-	-	-	-
Andrew Thorburn – Group CEO[(8)]	6	1	-	-	2	-	4	-	-	-	-

Directors at times attended Committee meetings where they were not members. This is not reflected in these numbers, apart from Mr Thorburn's attendance in his capacity as Group CEO prior to his resignation and Mr Chronican's attendance in his capacity as interim Group CEO, which are reflected in these numbers.

A. For the purpose of this table, scheduled meetings refer to meetings scheduled within the calendar of meetings approved by the Board. The number of scheduled meetings includes jointly convened meetings of the Board and Audit Committees (2 meetings), the Board and Remuneration Committee (1 meeting), and the Audit and Risk Committees (2 meetings). These numbers are reflected in both the Board and relevant Committees' scheduled meeting columns. The number of scheduled Board meetings included 3 short special purpose meetings related to financial reporting. The Board also establishes ad-hoc committees for special purpose business from time to time to support the Board in carrying out its responsibilities. These are not included in the number of scheduled meetings.
B. Other meetings include workshops to consider items of special interest as well as meetings convened between scheduled meetings to consider high priority matters. The number of other meetings includes jointly convened workshops of the Board and Risk Committee (1 workshop) and joint workshops of the Audit and Risk Committees (2 workshops). These numbers are reflected in both the Board and relevant Committees' other meeting columns.
C. Unless otherwise stated, each director has been a member, or the Chairman, of the relevant Committee for the whole of the period from 1 October 2018.

(1) Established in March 2019.
(2) Member of the Risk Committee from October 2018 to February 2019. Chairman of the Risk Committee from March 2019, upon Mr Chronican's commencement as interim Group CEO.
(3) Mr Chronican was Chairman of the Risk Committee and a member of the Remuneration Committee from October 2018 to February 2019 until he commenced as interim Group CEO effective 1 March 2019. On 6 March 2019, Mr Chronican was announced as the next Chairman. Mr Chronican was unable to attend one Board workshop while in his capacity as interim Group CEO. Mr Chronican's views were conveyed by the Chairman to the other directors present at the workshop.
(4) Mr Gupta was unable to attend one Board workshop. Mr Gupta's views were conveyed by the Chairman to the other Directors present at the workshop.
(5) Ms McBride was unable to attend one Board workshop, one scheduled Audit Committee meeting, one Audit Committee meeting convened for a high priority matter and one joint Audit and Risk Committee workshop. Ms McBride's views were conveyed by the Chairman to the other directors present at those meetings.
(6) Mr McKay was unable to attend one Board meeting convened for a high priority matter, one Board workshop and one Audit Committee workshop. Mr McKay's views were conveyed by the Chairman to the other Directors present at those meetings.
(7) Ms Sherry was unable to attend one of the scheduled Board meetings (a short financial reporting meeting in November 2018) and one Board meeting convened for a high priority matter. Ms Sherry's views were conveyed by the Chairman to the other directors present at those meetings.
(8) Former Group CEO and Managing Director. Mr Thorburn resigned effective 28 February 2019. While not a member of any of the Board Committees, Mr Thorburn regularly attended Risk and Remuneration Committee meetings.

OTHER INFORMATION

Directors' and executives' interests

Particulars of shares, performance rights and other relevant interests held directly and indirectly by directors and executives are set out in the Remuneration report.

Performance rights

As at the date of this report, there are 2,791,200 performance rights outstanding in relation to NAB fully paid ordinary shares. No exercise price is payable for performance rights. The latest dates for exercise of the performance rights range between 15 February 2020 and 15 February 2027. Persons holding performance rights are not entitled to participate in capital actions by NAB (such as rights issues or bonus issues).

For the period from 1 October 2019 to the date of this report, no NAB fully paid ordinary shares were issued as a result of the exercise of a performance right.

For further details on performance rights refer to *Note 34 Equity-based plans* of the financial statements and section 5.4 of the Remuneration report.

OTHER MATTERS

Litigation and disputes

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

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

Future Developments

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

Proceedings on behalf of NAB

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

Events subsequent to reporting date

On 14 November 2019, Dr Ken Henry resigned as non-executive director and Chairman of the Board. Mr Philip Chronican commenced as Chairman of the Board, effective 15 November 2019 with his last day as interim Group CEO on 14 November 2019. Mr Gary Lennon, Group CFO will be acting Group CEO from 15 November 2019 to 1 December 2019 while continuing as Group CFO.

On 13 September 2019, NAB exercised its option to redeem the EUR750 million medium-term notes. The notes were repaid at par on 12 November 2019.

Other than the matters noted, there are no items, transactions or events of a material or unusual nature that have arisen in the period between 30 September 2019 and the date of this report that, in the opinion of the directors, have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

Integrity of reporting

The directors of NAB have a responsibility with respect to the integrity of external reporting. This involves reviewing and monitoring, with the assistance of the Board Audit Committee and management, the processes, controls and procedures which are in place to maintain the integrity of the Group's financial statements.

Further details on the role of the Board and its committees can be found in NAB's 2019 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance.

Environmental and social regulation, risk and opportunities

The operations of the Group are not subject to any site specific environmental licences or permits which would be considered particular or significant environmental regulation under the laws of the Australian Commonwealth Government or of an Australian state or territory. The operations of the Group are subject to the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER Act) as part of the legislative response to climate change in Australia. While this legislation is not particular to the Group or significant in its impact, the Group complied with its requirements. The NGER Act requires the Group to report on the period from 1 July to 30 June (the environmental reporting year). The Group's Australian vehicle fleet and building related net energy use reported under the NGER Act for the 2019 environmental reporting year was 576,376 gigajoules (GJ) (2018: 599,527 GJ), which is approximately 83% of the Group's measured total net energy use. The associated total greenhouse gas (GHG) emissions from fuel combustion (Scope 1) and from electricity use (Scope 2) were 101,626 tCO_2-e (2018: 108,192 tCO_2-e).

During the 2019 environmental reporting year, the Group's total net GHG emissions (Scope 1, 2 and 3[(1)]) were 168,175 tCO_2-e (2018: 180,950 tCO_2-e), after accounting for use of certified renewable energy in the UK and generated renewable energy in Australia. The Group continues to implement an energy efficiency program, including energy efficiency opportunity assessments and sustainable building design. This helps to produce GHG emissions savings and contributes to the Group's carbon neutral status and delivery of the Group's climate change strategy. From 1 July 2006 to 30 June 2019, the Group identified 1,253 energy efficiency and 26 renewable energy opportunities in Australia alone. Initiatives implemented in 2019 are estimated to deliver ongoing annual energy savings of 6,726 GJ and annual estimated cost savings of $397,278. A further 14 efficiency energy opportunities are in progress or approved to proceed.

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

In the United Kingdom, the Group participates in the Carbon Reduction Commitment Energy Efficiency Scheme

(1) Scope 3 relates to all other indirect emissions that occur outside the boundary of the organisation as a result of the activities of the organisation, excluding emissions from electricity use which is Scope 2.

OTHER MATTERS (CONTINUED)

(CRC EE Scheme). The Group's UK-based GHG emissions reportable under the CRC EE Scheme for the 2018/2019 compliance year (year ended 31 March 2019) were 0 tCO_2-e (2018: 0 tCO_2-e) because the Group's UK operations no longer have any reportable energy supplies (the Group occupies leased offices where the landlord pays the energy bills and includes a recharge in the lease outgoings). The Group's regulatory return was filed in July 2019 as required by the CRC EE Scheme Order 2010. This year, the Group was not required to purchase and surrender Carbon Reduction Commitment Allowances. This is the Group's final return required under the CRE EE Scheme, ended by the UK Government after the 2019 reporting period. The Scheme will be replaced by new Streamlined Energy & Carbon Reporting (SECR) requirements introduced in April 2019 in the UK. NAB is assessing whether it will be subject to the SECR requirements.

In 2014 the Group's UK-based operations became subject to the Energy Savings Opportunities Scheme (ESOS), introduced by the UK *ESOS Regulations 2014* which came into force in July 2014. The ESOS requires mandatory energy assessments (audits) of organisations' buildings and transport to be conducted every four years. The Group has appointed an appropriately qualified lead assessor to conduct the required ESOS assessment of its London Branch and will submit its notification of compliance to the UK Environment Agency to fulfil its ESOS obligation by 5 December 2019.

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

Climate Change

The Group recognises that climate change is a significant risk and a major challenge for the global economy and society. Additionally, financial regulators have agreed that climate-related risks are a source of financial risk that need to be addressed to ensure the future stability and resilience of the financial system. The Group supports the transition to a low-carbon economy consistent with the Paris Agreement to limit global warming to less than 2 degrees Celsius above pre-industrial levels, striving for 1.5 degrees Celsius.

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

Governance

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

Risk Management

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

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

In the 2019 financial year, the Group progressed a number of climate-related risk activities and projects to continue to increase the Group's understanding of climate-related risks and opportunities, including:

- Commencing work as part of the United Nations Environment Program Finance Initiative (UNEP FI) Phase 2 pilot project, with other UNEP FI member banks, to

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

OTHER MATTERS (CONTINUED)

further develop methodologies and processes to implement the recommendations made by the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). Phase 2 involves an expanded group of 37 banks. Work is being undertaken through to June 2020. Phase 2 will examine a broader range of scenarios to help increase understanding of the spectrum of scenarios available and explore the availability of further data sets to assist with climate-related scenario analysis and risk assessment. In addition, participating banks will also explore climate risk governance and disclosure best-practices.

- Becoming a founding signatory to the Principles for Responsible Banking (PRB). Signatories, including the Group, have committed to align their business strategies to the Sustainable Development Goals[(1)] (SDGs), the Paris Agreement and relevant national and regional frameworks. They also commit to setting and publishing targets and metrics in line with society's goals as expressed in the SDGs and the Paris Agreement within the four-year PRB implementation period. Early in the 2020 financial year, the Group will also join the PRB's Collective Commitment to Climate Action.
- Working with the Energy Transitions Hub (the Hub) at the University of Melbourne to develop a process to geocode data from the Group's lending portfolio and overlay it with transition and physical climate risk information for the purpose of scenario analysis. This new process is being used to examine the potential impact of climate scenarios with a focus on cyclones and the impact they may have on the Group's Australian retail mortgage portfolio under different levels of warming. Further information on the outcomes of this work are provided on page 38.
- Undertaking further transition risk scenario analysis on coal-related sectors. This work is in progress. Additional to the REMIND[(2)] model used in Phase 1 of the UNEP FI TCFD pilot, the Group is considering a number of additional climate-related scenarios including the International Energy Agency's New Policies Scenario and Sustainable Development Scenario and a 1.5°C scenario available from Global Energy Monitor. This work is helping to increase the Group's understanding of transition pathways for coal-related sectors and will help inform the approach taken to portfolio alignment with the Paris Agreement goals. Changes arising from this work include:
  - Supporting current coal-fired power generation customers implementing transition pathways aligned with Paris Agreement goals of 45% reduction in emissions by 2030 and net zero emissions by 2050.
  - Capping thermal coal mining exposures at current levels and reducing thermal coal mining financing by 50% by 2028, intended to be effectively zero by 2035, apart from residual performance guarantees to rehabilitate existing coal assets.

  The Group will review targets each year against the latest global climate scenarios and relevant technology developments.
- Review of credit risk policy settings for carbon intensive, climate sensitive and low-carbon sectors. This work commenced in the 2017 financial reporting year and is ongoing. These reviews consider a range of factors including: (i) various climate change scenarios for both transition[(3)] and physical[(4)] risk; (ii) customer strategies and plans and their alignment to the Paris Agreement 2°C climate goal; (iii) industry trends; and (iv) trends in Group exposures to these sectors. Outcomes of the review process to date have led to implementation of the following credit risk policy settings. Although the Group continues to support existing customers across the mining and energy sectors to facilitate an orderly transition to a low-carbon economy, it will not finance:
  - new thermal coal mining projects or new-to-bank thermal coal mining customers
  - oil / tar sands extraction projects
  - oil and gas projects within or impacting the Arctic National Wildlife Refuge area and any similar Antarctic Refuge
  - new, or material expansions of, coal-fired power generation facilities, unless there is technology in place to materially reduce emissions.

The Group also continues to work with a range of external organisations on climate-related projects including:

- *IAG* – The Group has been working with IAG, and the Commonwealth and NSW governments to develop an investment vehicle that will direct capital to finance new and/or adapt existing infrastructure that builds resilience to natural hazards. This pilot will help prove the concept with a view to implementing the approach across other regions.
- *Climate-KIC Australia* – The Group has been working with Climate-KIC Australia through a forum of national state government partners, on climate change adaptation and resilience. This collaboration is focused on identifying adaptation projects and developing a scalable approach to adaptation finance.
- *Energetics*[(5)]– The Group supported development of a tool to help assess the potential impacts that future changes in climatic conditions may have on the factors that affect credit risk in the dairy industry.

(1) The sustainable development goals are a collection of 17 global goals set by the United Nations General Assembly in 2015 for the year 2030. The SDGs are part of Resolution 70/1 of the United Nations General Assembly, the 2030 Agenda.
(2) REMIND is a global multi-regional model incorporating the economy, the climate system and a detailed representation of the energy sector available from the Potsdam Institute for Climate Impact Research. REMIND allows for the analysis of technology options and policy proposals for climate mitigation.
(3) For the purpose of this work, transition risk was defined as the impact of low-carbon policy and transition to low-carbon technology on markets and industries.
(4) For the purpose of this work, physical risk was defined as the risk resulting from climate variability, extreme weather events and longer-term changes in climate patterns.
(5) Energetics is a specialist management consultancy focused on helping client's to understand and transition to a low-carbon economy.

OTHER MATTERS (CONTINUED)

Physical risk scenario analysis

During the 2019 financial year, the Group has been working with the Hub at the University of Melbourne to develop a process to geocode data from the Group's lending portfolio so it could be overlaid with physical climate risk information. Geocoding is a process that converts addresses (like a street address) into coordinates that can pinpoint a property location on a map. This process was developed and piloted in the 2019 financial year using data from the Group's Australian retail mortgage portfolio. The next step is to test this process with other segments of the Group's lending portfolio during the 2020 financial year to ensure the process is repeatable and reliable.

After geocoding the Group's Australian retail mortgage portfolio, the Hub helped to develop a process for overlaying lending portfolio data with physical climate data. Cyclone data (wind speeds >64 knots or cyclone category 1 and above) was used to test this overlay process and develop the Group's understanding of how to assess the potential impact of physical climate hazards on segments of its lending portfolio under different climate scenarios. Wind speeds from cyclone tracks under four different warming levels (1.2°C, 1.5°C, 2°C and 3°C above pre-industrial levels) were selected and analysed by the Climate and Energy College in collaboration with the Potsdam Institute for Climate Impact Research for use as an indicator of the severity and location of future damage due to tropical cyclones under a changing climate. A range of scenarios is important to help understand the possible future physical risks due to uncertainties in the climate models.

Initial analysis suggests that an increased geographic proportion of the Group's Australian retail mortgage portfolio is likely to experience cyclones under higher warming scenarios. Further work is required to refine this methodology. Future work will include growing the Group's understanding of how to link forecast changes in physical climate impacts such as cyclone frequency, location and severity with possible future changes in probability of default. Following further testing of this approach, the Group will look to add other overlays of physical hazard data such as flooding, drought, and extreme heat, as well as applying the approach to other lending portfolio segments.

Climate Change Strategy

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

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

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

In the 2019 financial year, the Group reviewed its Climate Change Strategy and increased its: (i) environmental finance commitment to support green infrastructure, capital markets and asset finance from $20 billion to $35 billion (taking the Group's total environmental finance commitment from $55 billion to $70 billion by 2025)(1) and (ii) commitment to purchase Australian renewable energy from 50% to 100% by 2025. The Group has since signed up to the RE100 initiative(2).

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

- Reaching a total of: (i) $17.5 billion against the Group's commitment to provide $20 billion to support green infrastructure, capital markets and asset finance by 2025; and (ii) $16.1 billion against the Group's commitment to provide $35 billion in new mortgage lending flow for 6 Star residential housing in Australia (new dwellings and significant renovations) by 2025.
- Delivering on the Group's 50% renewable electricity by 2025 commitment, 10% of which will be delivered via a large solar installation at the Group's primary data centre and contracts with Pacific Hydro for renewable energy certificates from a new Victorian wind farm which commenced generation in January 2019. As at 30 June 2019, the Group had surrendered renewable energy certificates equivalent to 3% of Australian electricity consumption.

The Group's climate change commitments have been integrated into the Group's business strategy. The Group is using its experience in clean energy financing and natural value to provide innovative, low-carbon solutions for customers across all of the Group's key sectors and markets. Highlights in the 2019 financial year have included:

- Financing a further $1.7 billion for renewable energy projects (this year the Group financed its 130th renewable energy project).
- UBank launching a Climate Bond certified consumer Green Term Deposit (TD) (a world first). This green product allocates customers' savings to financing a portfolio of low-carbon projects, such as wind and solar power generation, electrified passenger rail and green buildings. The Green TD has attracted around 2,900 customers and raised almost $357 million in deposits.

(1) Represented as a cumulative amount of new environmental finance since 1 October 2015. Refer to 2019 Sustainability Report and Data Pack for more information.
(2) RE100 is a global corporate leadership initiative bringing together businesses committed to 100% renewable electricity.

OTHER MATTERS (CONTINUED)

- Participating in eight public green, social and sustainability bond deals and three sustainability-linked loans including:
  - Arranging Australia's largest ever green bond – the $1,800 million TCorp Green Bond. Proceeds were earmarked for low-carbon transport and sustainable water projects.
  - Arranging the world's first Climate Bond certified green bond for a retail property landlord – $300 million Queensland Investment Corporation Shopping Centre Fund green bond.
  - Acting as a Mandated Lead Arranger on the $1,400 million Sydney Airport Sustainability Linked Loan (see case study in the Group's *2019 Sustainability Report* for more information).

Metrics and targets

In addition to the Group's environmental financing commitment, the Group is monitoring exposure to both carbon intensive and low-carbon sectors. Some of this data is reported to investors in the March 2019 half year and the September 2019 financial year results presentations, as well as in the Group's annual *Sustainability Report*. Currently, exposure to renewable energy represents 69.4% of the Group's power generation portfolio (up slightly from 68.8% at 30 September 2018) and exposure to coal-fired power generation decreased from 5.4% at 30 September 2018 to 1.7% at 30 September 2019. Exposure to coal mining increased from $0.7 billion at 30 September 2018 to $1.5 billion at 30 September 2019 (as exposure at default (EAD)). Of the $0.8 billion increase, $0.4 billion relates to model and regulatory prescribed methodology requirements (including: thermal coal +$0.2 billion, metallurgical coal + $0.2 billion). However, comparing September 2019 full year to March 2019 half year, which were calculated with the same model and regulatory prescribed methodology, thermal coal exposure decreased by 14.8% from $0.9 billion to $0.8 billion (as EAD) and metallurgical coal increased by 28.8% from $0.6 billion to $0.7 billion, with a small increase in total coal mining exposure of 2% from $1.47 billion to $1.5 billion (as EAD).

Further information about the Group's Environmental Agenda, climate change governance, strategy, risk management and metrics, targets and commitments, operational greenhouse reduction and resource efficiency targets and management approach can be found in the Group's *2019 Annual Review* and *2019 Sustainability Report* available online at www.nab.com.au/annualreports.

Modern Slavery

The Group is subject to modern slavery acts in Australia and the United Kingdom. On 1 January 2019, the Australian Modern Slavery Act came into effect. Disclosure pursuant to this Act will be required in 2020.

The Group has prepared a Modern Slavery Act statement which sets out actions taken by the Group during the 2019 financial year to ensure that its business operations, and its supply chain, are free from slavery and human trafficking.

This statement is available online at www.nab.com.au/modernslaverystatement in accordance with the *UK Modern Slavery Act*.

OTHER MATTERS (CONTINUED)

Past employment with external auditor

EY has been the Group external auditor since 31 January 2005. There is no person who has acted as an officer of the Group during the 2019 financial year who has previously been a partner at EY when that firm conducted NAB's audit.

Audit-related, Taxation-related and Non-audit services

EY provided audit-related, taxation-related and non-audit services to the Group during 2019. The fees paid or due and payable to EY for these services during the year to 30 September 2019 are as follows:

	Group
	2019
	$'000
Comfort letters	604
Regulatory	7,276
Non-regulatory	419
Total audit-related services	8,299
Taxation-related services	225
Non-audit services	99
Total audit-related, taxation-related and non-audit services	**8,623**

As set out in *Note 33 Remuneration of external auditor* of the financial statements, total fees paid or due and payable for all services provided by EY to the Group during 2019 amount to $24.4 million.

EY also provides services to non-consolidated trusts of which a Group entity is trustee, manager or responsible entity and non-consolidated Group superannuation funds. The fees paid or due and payable to EY for these services during the year to 30 September 2019 total $3.3 million.

In accordance with advice received from the Board Audit Committee, the directors are satisfied that the provision of audit-related, taxation-related and non-audit services during the year to 30 September 2019 by EY is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). The directors are satisfied because the Board Audit Committee or its delegate has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded that the provision of each service or type of service would not impair the independence of EY.

A description of the Board Audit Committee's pre-approval policies and procedures is set out in the NAB 2019 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance. Details of the services provided by EY to the Group during 2019 and the fees paid or due and payable for those services are set out in *Note 33 Remuneration of external auditor* of the financial statements. A copy of EY's independence declaration is set out on the following page.

AUDITOR'S INDEPENDENCE DECLARATION

Ernst & Young
8 Exhibition Street
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Auditor's Independence Declaration to the Directors of National Australia Bank Limited

As lead auditor for the audit of the financial report of National Australia Bank Limited for the financial year ended 30 September 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

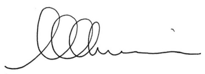
Ernst & Young

Ernst & Young

Sarah Lowe
Partner
15 November 2019

DIRECTORS' SIGNATURES

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



Philip Chronican
Chairman
15 November 2019

REMUNERATION REPORT

Letter from Chairman Philip Chronican and Remuneration Committee Chairman Anne Loveridge

Dear Shareholder,

This year's Remuneration report responds to where we fell short of your expectations in 2018 and outlines the fundamental changes we have made to reflect your feedback. It is clear that we have let down customers, shareholders and the community in various ways.

Having received clear rejection by shareholders culminating in a record first strike vote, we acted on your concerns and made the material changes many of you wanted to see reflected in our remuneration framework and the way performance is reflected in remuneration outcomes.

We have delivered a new remuneration framework for our Executives designed to better meet shareholder expectations for long-term performance outcomes and more closely align the interests of Executives and shareholders. We have made material enhancements to the information provided to the Board to improve rigour in the assessment of outcomes. We have determined for our Executives that there will be no short-term variable rewards and no fixed remuneration increases.

Recognising our shortcomings gives us cautious optimism that this year's actions are more appropriate, although that is ultimately for shareholders to decide.

Our shortfalls have been taken well into account

The introduction for this Remuneration report is shared between the incoming Chairman, Philip Chronican, and the Remuneration Committee Chairman, Anne Loveridge, because we want to demonstrate clear responsibility from the top to make this right for shareholders.

We are under no illusion as to the task ahead and the opportunities we have as a Board and broader organisation. The resignations of our Chairman and Group CEO announced in February highlighted and acknowledged the need to respond to deeper issues which have been taken well into account.

While underlying business performance was solid, we did not achieve some financial and non-financial results which is reflected in the 2019 remuneration outcomes for our Executives. Specifically, your Company has needed to make substantial provisions for customer-related remediation which has impacted 2019 earnings.

We have also recognised the impact on our brand, reputation and the trust which our customers place in us. These are all considerations which we make on your behalf when assessing performance and remuneration outcomes.

The accountability actions taken by the Board since the first strike have been significant and include:

- accepting the resignation of Group CEO, Andrew Thorburn (effective February 2019) which resulted in forfeiture of all his deferred variable reward potentially worth $21 million[(1)]
- forfeiting deferred variable reward previously awarded between 2016 and 2018 for the majority of the 2018 Executive team (other than the former Group CEO), potentially worth $5.5 million[(1)]
- accepting the resignation of Chairman, Dr Ken Henry (effective November 2019) and determining that other directors would receive a reduction in fees for 2019, equivalent to 20% of 2018 base fees received
- substantially changing the remuneration framework for Executives to ensure they continue to be focused on the right outcomes for our customers and shareholders today and over the long-term.

The Board has been decisive on 2019 performance outcomes

The Board has increased rigour in assessing performance, with a clear focus to reward longer-term, sustainable customer and shareholder outcomes.

While 2019 underlying business performance was solid, NAB did not achieve some financial and non-financial targets. The key remuneration outcomes for Executives in 2019 are:

- based on performance, no short-term variable reward be awarded to any Executive for 2019. The maximum short-term variable reward opportunity for Executives was $14.4 million, while at target opportunity was $9.6 million[(2)]
- no increases to fixed remuneration for Executives.

A 2019 long-term incentive, which will be subject to testing in 2023, will be granted to align the interests of Executives and shareholders over the long-term.

Our 2019 remuneration framework is substantially improved in response to your feedback

After engaging with key stakeholders, we made material changes to our remuneration framework and the way performance and accountability is reflected in remuneration outcomes in response to your main concerns:

- Variable reward outcomes last year were too high – as disclosed earlier this year the Board forfeited deferred variable reward previously awarded for the majority of the 2018 Executive team (in addition to that of the former Group CEO), potentially worth $5.5 million[(1)].

(1) Based on an indicative share price of $25 and assuming full vesting of all rights, shares and cash awards, and excluding the value of any dividends on unvested shares.
(2) Maximum assumes all individual and Group performance scores set at the highest possible level, while at target assumes all individual and Group performance scores set at target. See Section 1.4 for detail on the Group's actual performance for 2019.

REMUNERATION REPORT (CONTINUED)

- The plan design delivered too heavily through cash – we have reduced the cash element and increased the deferred equity component.
- Our plan lacked a clear long-term performance hurdled element – we reintroduced a long-term variable reward component with a hurdle based on total shareholder return performance relative to a group of peers over a four year performance period.
- Dividends being paid on unvested deferred variable reward – this element has been removed.

A detailed explanation of the framework is provided in the report and we encourage you to spend time reviewing the new structure.

Attracting and retaining talent is critical

This report details a clearer remuneration framework that better reflects shareholder and community expectations, although there will always be debate around what is the appropriate compensation to attract and retain the best executive talent.

We have appointed a respected and experienced Group CEO in Ross McEwan while keeping his fixed remuneration levels comparable with major Australian peers and placing almost 75% of his maximum reward at risk. The Board has received positive feedback from institutional investors on Ross' appointment and looks forward to working with him, particularly given his strong capabilities in driving cultural reforms in financial services with a focus on customers and creating an ethical and accountable 'speak up' culture.

Related actions to restore trust

Broader than these actions, the Board has overseen actions responding to the findings of the Royal Commission. The Board completed and published its self-assessment into the effectiveness of our governance, accountability and culture frameworks and practices, undertaken at the request of the Australian Prudential Regulation Authority (APRA).

As a Board, we are working hard to encourage a strong culture underpinned by ethics, integrity and an enduring approach of doing the right thing by our customers, employees, investors and the community.

The Remuneration Committee is overseeing a Group-wide review of all variable reward plans and practices to ensure they are driving the right customer outcomes.

We have carefully reviewed our framework structure and operation to ensure sufficient focus and balance on non-financial matters such as risk management, compliance and customer outcomes. This drives the right behaviours alongside appropriate and sustainable financial outcomes.

We are able to assess individual scorecards, Group performance measures and the broader quality and sustainability of the results. This means annual variable reward is balanced between financial and non-financial metrics, with customer and transformation measures playing a significant role.

We have increased our governance and oversight of employee conduct and support the enhanced Employee Conduct Management framework introduced to ensure our behavioural standards are upheld and that customers can rely on our people to do the right thing.

The Board has listened and acted

The message you sent your directors and management last year was justifiably confronting. The range of corrections we have made are designed to meet your clear approval and smooth the path for an appropriate framework and rigorous application of outcomes in 2019 and beyond.

We are acutely aware of the continuing changes in the community and regulatory landscape, including APRA's recently released consultation paper on remuneration, and will continue to ensure our remuneration frameworks are appropriate and comply with all requirements.

We will continue to align our remuneration structure and outcomes with these elements as well as the core financial performance measures that you expect. We look forward to your continued feedback about progress on these critical matters for your Company and its Executives.

Philip Chronican
Chairman

15 November 2019

Anne Loveridge
Remuneration Committee Chairman

15 November 2019

Contents

REMUNERATION REPORT (CONTINUED)

Board response to concerns raised in relation to the 2018 remuneration report

As part of the Board's recognition of failing to meet shareholder expectations last year on its Executive remuneration framework and subsequent application of outcomes, we provide a summary of specific concerns raised through the engagement process and the tangible, fundamental actions taken since. The new framework applies to the 2019 financial year onwards.

You said...	We changed...
Variable reward *The amount of variable reward (including cash) paid in 2018 was too high and did not reflect business performance or stakeholders' reasonable expectations*	**The link between business performance, accountability and remuneration outcomes is stronger** • After further consideration of accountability for outcomes, the Board has reviewed and adjusted the variable reward decisions made in 2018 for the majority of the Executive team. • This resulted in the forfeiture of deferred variable reward previously awarded between 2016 and 2018 to the majority of 2018 Executive team (other than the former Group CEO), potentially worth $5.5 million(1). • Based on 2019 performance, the Board determined no short-term variable reward (cash or deferred rights) be awarded to Executives for 2019. (The maximum short-term variable reward opportunity for Executives was $14.4 million, while the reward opportunity at target was $9.6 million(2).)
Long-term focus *Our Executive remuneration framework lacked an explicit long-term performance hurdle*	**Restoration of a specific long-term variable award** • The Executive remuneration framework includes a specific Long Term Variable Reward (LTVR) subject to minimum individual performance requirements being met. • The LTVR will only vest at the end of the four year performance period if a relative Total Shareholder Return (TSR) hurdle is achieved. • From 2019 we will deliver less variable reward as cash and more as deferred equity. A minimum of 50% of total remuneration is now deferred (at maximum opportunity), and at least one third of deferred variable reward is now subject to long-term shareholder return performance (see Section 1.8 for more information).
Dividends *Dividends were to be paid on unvested deferred shares*	**Dividends will not be paid before deferred equity vests** • Dividends will not be paid during deferral periods on unvested equity awarded to Executives from 2019. • A dividend equivalent amount will be paid at the end of the deferral period if Annual Variable Reward (VR) deferred rights are not forfeited. • No dividend equivalent payment will be made for LTVR awards that vest.
Governance *There was insufficient rigour and transparency in our remuneration practices*	**Enhanced governance processes** • We have made material enhancements to the information provided to the Board to improve the rigour and discipline in determining Executive performance and its impact on remuneration outcomes, particularly around customer outcomes and non-financial risks. • There is stronger governance and oversight of employee conduct and how it impacts remuneration. • A Board Customer Committee has been established to oversee a significant improvement in the importance given to the voice of the customer in NAB's decision-making and a more intense focus on customer outcomes and how they are reflected in remuneration. • The Board has overseen remuneration related actions supporting the recommendations of the final report of the Royal Commission and those identified in our self-assessment to APRA. • An independent review of the effectiveness of the Group's Remuneration Policy was overseen by the Board. Review findings have been considered in the development of the Executive remuneration framework.

(1) Based on an indicative share price of $25 and assuming full vesting of all rights, shares and cash awards, and excluding the value of any dividends on unvested shares.
(2) Maximum assumes all individual and Group performance scores set at the highest possible level, while at target assumes all individual and Group performance scores set at target. See Section 1.4 for detail on the Group's actual performance for 2019.

Key definitions

Term	Meaning
Executives	The Group CEO and other executive KMP, excluding the interim Group CEO (Philip Chronican) and executives who have acted in a KMP role on an interim basis (Greg Braddy and Julie Rynski)
Control Roles	The Chief Risk Officer (CRO), Chief People Officer (CPO) and Chief Legal and Commercial Counsel
Key Management Personnel (KMP)	KMP are the non-executive directors of NAB, the Group CEO (an executive director of NAB) and those employees of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group

REMUNERATION REPORT (CONTINUED)

New Executive remuneration framework

The Board has returned to a traditional variable reward plan previously supported by shareholders, replacing the combined incentive scheme that applied for 2018. Consistent with our remuneration principles, it rewards performance beyond the short-term and encourages long-term decision making critical to creating value for customers and shareholders.

The key objective is to ensure focus on improving the performance and behaviours that drive exceptional customer service, deliver long-term sustainable returns and progress NAB's desired culture with an emphasis on integrity and accountability. We believe the changes to the Executive remuneration framework accommodate these objectives and address key stakeholder concerns which led to the vote against the 2018 Remuneration Report. This framework applies for the 2019 financial year onwards.

REMUNERATION PRINCIPLES

CUSTOMERS	SHAREHOLDERS	STRATEGY	RISK	EMPLOYEES
Reinforce our commitment to customers	Align reward with sustainable shareholder value	Drive delivery of long-term performance	Reflect risk, reputation, conduct and values outcomes	Attract and retain the best people

HOW THE REMUNERATION FRAMEWORK SUPPORTS OUR STRATEGY

Delivering **today** for our customers and shareholders

FIXED REMUNERATION

Set to attract and retain

- Fixed remuneration (FR) is comprised of base salary and superannuation
- Paid regularly during financial year
- Set at a market competitive level for role and experience

ANNUAL & DEFERRED VARIABLE REWARD

Earned for delivery of annual goals that drive long-term sustainable performance

- Quantum ranges (% of FR)[1]:

0% - 150%	0% - 105%	0% - 150%
for Group CEO	for Control Roles[2]	for all other Executives

- Outcomes vary depending on Group and individual performance (balanced scorecard), and demonstrated values and behaviours
- Delivered as 50% cash, 50% deferred rights (12.5% delivered at the end of year 1, year 2, year 3 and year 4)
- Dividend equivalent payment for any vested deferred rights at the end of each deferral period

Sustained delivery **tomorrow** for our customers and shareholders

LONG TERM VARIABLE REWARD

Earned for long-term performance

- Award value (% of FR)[3]:

130%	100%	130%
for Group CEO	for Control Roles[2]	for all other Executives

- The award is granted subject to minimum individual performance requirements being met
- Vesting is subject to NAB's TSR result against financial services peer group, tested after 4 years
- Provided as performance rights
- No dividend equivalent payment for awards that vest

FIXED REMUNERATION	ANNUAL VR (CASH)	ANNUAL VR (DEFERRED RIGHTS)	LONG TERM VARIABLE REWARD
PERFORMANCE YEAR (YEAR 0)		YEARS 1-4	YEAR 4

Board discretion applies for qualitative matters including risk, reputation, conduct and values to ensure sustainable performance (including for malus and clawback)

AT RISK

1 From 2019, the VR based on annual performance at target is 100% of FR (150% of FR at maximum) for the Group CEO, 70% of FR (105% of FR at maximum) for Control Roles and 100% of FR (150% of FR at maximum) for other Executives.
2 Control Roles are the Chief Risk Officer, Chief People Officer and the Chief Legal and Commercial Counsel.
3 The actual value delivered to an Executive is subject to the level of achievement against the performance hurdle and NAB's share price at the time of vesting.

REMUNERATION REPORT (CONTINUED)

Key remuneration outcomes for 2019

In 2019, our Executives progressed performance against our key customer, risk, people and transformation metrics and delivered solid underlying business performance. But financial results have been impacted by substantial provisions made for customer-related remediation. The Board has considered the overall collective accountability for our shortfalls in performance, and determined no Annual VR (cash or deferred) be awarded to Executives for 2019. Outcomes for 2019[(1)] are set out below.

Fixed remuneration

No increases to fixed remuneration during 2019.

Annual Variable Reward (VR) outcomes

No Annual VR has been awarded to Executives for 2019. The maximum short-term variable reward opportunity was $14.4 million ($9.6 million at target opportunity)[(2)].

No variable reward has been awarded to the former Group CEO for 2019. (The interim Group CEO did not participate in any variable reward plans.)

	% Maximum Annual VR	
	2019	**2018**
Former Group CEO*	0%	30%
Executives	0%	12% - 70%

* The 2018 percentage includes deferred variable reward forfeited on resignation.

Progress has been made against key customer, risk, people and transformation metrics, however, this year's outcomes reflect accountability for below target financial performance (impacted by substantial customer-related remediation provisions), and our shortfalls across customer, trust and reputation.

See Section 1.3 to 1.6 for more information.

Long-term variable reward outcomes

- The 2013 Long Term Incentive (LTI) award did not achieve the required performance hurdles and so did not vest. The 2014 LTI award did not achieve the required performance hurdles when tested in November 2018 and so did not vest. The 2014 award is subject to a final test in November 2019. See Section 3 for more information.
- A 2019 long-term incentive, which will be subject to testing in 2023, will be granted to align the interests of Executives and shareholders over the long-term. See Section 1.8 for more information.

Accountability consequences

In 2019, the Board has built on the action it commenced in 2018 where forfeitures of variable reward for three former Executives (pre-dating 2018) were applied where NAB had not met customer, shareholder, regulator or community expectations. Other impacts on Executive remuneration this year:

- All deferred and unvested remuneration for the former Group CEO, Andrew Thorburn was forfeited on his resignation (potentially worth $21 million[(3)]).
- The Board determined significant forfeitures of deferred equity for the majority of the 2018 Executive team. See Section 5.2 for more information.
- The Board determined all unvested 2017 deferred Short Term Incentive (STI), 2018 deferred VR, 2016 LTI and 2017 LTI awards for the former Chief Customer Officer, Consumer and Wealth be forfeited (potentially worth $1.7 million[(3)]).

The Board accepted the resignation of Chairman, Dr Ken Henry (effective November 2019), and determined that other directors would receive a reduction in fees for 2019, equivalent to 20% of the 2018 director base fees received.

Executive exit arrangements

The following table outlines the exit arrangements for Executives during 2019. See Section 5.1 for more information.

Executive	Exit arrangement
Andrew Thorburn (ceased as an Executive and an employee on 28 February 2019)	• Payment in lieu of notice in accordance with his employment contract was made. • All unvested deferred short-term and LTI awards were forfeited (potentially worth $21 million[(3)]). • Statutory entitlements and career transition support were provided.
Lorraine Murphy (ceased as an Executive and an employee on 29 March 2019)	• Payment in lieu of notice in accordance with her employment contract was made. • All unvested LTI awards were forfeited (potentially worth $2.1 million[(3)]). Other deferred variable reward was retained and remains subject to the relevant performance hurdles and restriction periods. • Statutory entitlements and career transition support were provided.

Other remuneration

- No commencement or retention awards were made to Executives during 2019.
- No increases to non-executive director Board or Committee fees were made. Fees were established for the new Board Customer Committee in March 2019.

(1) All matters relating to the remuneration of the Managing Director and CEO of Bank of New Zealand (BNZ), including variable reward, have been approved by the BNZ Board as required under BNZ's Conditions of Registration which are set by the Reserve Bank of New Zealand.
(2) Maximum assumes all individual and Group performance scores set at the highest possible level, while at target assumes all individual and Group performance scores set at target. See Section 1.4 for detail on the Group's actual performance for 2019.
(3) Based on an indicative share price of $25 and assuming full vesting of all rights, shares and cash awards, and excluding the value of any dividends on unvested shares.

REMUNERATION REPORT (CONTINUED)

2019 Annual Variable Reward received by Executives

The table below shows both the maximum Annual VR opportunity (the aggregate Annual VR at target opportunity for Executives was $9.6 million)[(1)] and the amount of actual Annual VR determined for Executives in relation to 2019 performance. While Executives progressed performance against goals in 2019, it would not have been sufficient to achieve either their Annual VR target or maximum opportunity, and having considered overall collective accountability, the board has determined that Annual VR be reduced to zero.

Name	Maximum Annual VR opportunity $	Total Annual VR $	Annual VR cash $	VR deferred rights $	% of maximum Annual VR opportunity %
Executives					
Mike Baird	1,800,000	0	0	0	0
Sharon Cook	945,000	0	0	0	0
Shaun Dooley	1,050,000	0	0	0	0
David Gall	1,800,000	0	0	0	0
Anthony Healy	1,800,000	0	0	0	0
Gary Lennon	1,650,000	0	0	0	0
Angela Mentis	1,800,000	0	0	0	0
Rachel Slade	1,350,000	0	0	0	0
Patrick Wright	2,250,000	0	0	0	0
Former Executives					
Lorraine Murphy	N/A	0	0	0	N/A
Andrew Thorburn	N/A	0	0	0	N/A
Total	14,445,000	0	0	0	0

Section 1.8 set out details of the LTVR awarded for 2019.

Employee conduct and risk management

The Board is improving employee conduct and the Group's related risk management practices. The Remuneration Committee in partnership with the Risk Committee has strengthened governance, oversight and rigour around employee conduct. Incidents, breaches of NAB's Code of Conduct, breaches of policy and misconduct are reported to these committees on a regular basis with consequences ranging from further training or coaching, adjustments to variable reward outcomes, formal warnings or termination. In each case, judgment is exercised by senior management as to the appropriate consequence, based on the relevant circumstances.

In 2019, there were 1,278 Code of Conduct breaches identified that resulted in formal consequences (compared with 1,215 in 2018). Formal consequences included:
- 292 employees leaving NAB (2018: 307)
- 986 employees (excluding Executives) receiving coaching or other remedial actions, including the loss of variable reward (2018: 908).

In addition, equity forfeitures of $3.69 million, excluding Executives (2018: $0.81 million), occurred as a result of Code of Conduct breaches and revisiting previous variable reward decisions.

As a result of management's increased focus on risk management and risk assessment processes, 3,321 employees were recognised for their positive contribution to risk culture and living NAB's values everyday while 1,706 employees (2018: 369) participating in the Group Variable Reward Plan were identified as not having met risk expectations and accountabilities.

The Board supports the introduction in 2020 of an enhanced Group framework to manage employee conduct and ensure our behavioural standards are upheld so customers can have confidence our people do the right thing.

(1) Total maximum annual VR opportunity assumes all individual and Group performance scores set at the highest possible level, while at aggregate Annual VR at target opportunity assumes all individual and Group performance scores set at target. See Section 1.4 for detail on the Group's actual performance for 2019.

REMUNERATION REPORT (CONTINUED)

Section 1 - Executive remuneration framework

1.1 Changes to the Executive remuneration framework

The new Executive remuneration framework returns to a traditional variable reward plan with two separate components - Annual Variable Reward (VR) and Long Term Variable Reward (LTVR). The framework is designed to:

- better respond to and reflect shareholder and community expectations
- set globally competitive remuneration that will attract and retain a high calibre executive team from within financial services and critical support industries such as technology and risk
- reward Executives for long-term value creation and align the experience of shareholders and Executives more closely
- provide the right balance of non-financial and financial measures to drive exceptional customer service, deliver shareholder value and progress NAB's desired culture.

The key changes are:

Annual Variable Reward	• From 2019 Annual VR for: – the Group CEO will range from 0% to 150% of FR – those in Control Roles will range from 0% to 105% of FR – all other Executives will range from 0% to 150% of FR. • The amount of Annual VR awarded will depend on Group and individual performance (their balanced scorecard) and the values and behaviours demonstrated over the performance year. • Annual VR is now delivered as 50% cash and 50% deferred rights, with 12.5% eligible to vest at the end of year 1, year 2, year 3 and year 4. • Dividends are no longer paid during deferral periods on deferred equity. A dividend equivalent amount will be paid at the end of the deferral period if deferred rights are not forfeited. • All deferred rights continue to be subject to malus and VR cash and vested deferred rights continue to be subject to clawback.
Group performance (One NAB Score)	• Group and individual performance measures continue to align with our remuneration principles of ensuring rewards are supported by sustainable, risk-adjusted long-term performance. They are designed to be simple, and align with the Group strategy and culture. • The measures which support the Group's One NAB Score (and their relative weighting) are: – Return on Total Allocated Equity (risk-adjusted financial): 50% – Cash earnings (financial): 25% – Net Promoter Score (non-financial): 12.5% – Transformation (two thirds non-financial / one third financial): 12.5% • The One NAB Score is subject to Board discretion.
Individual performance	• A balanced scorecard has been retained as the basis for assessing individual Executive performance to determine Annual VR. • Each Executive's scorecard has five equally weighted goals - customer, risk, people, transformation and financial.
Long Term Variable Reward	• A specific long-term variable reward has been introduced that will be determined and awarded by the Board independent of Annual VR decisions. The LTVR is designed to encourage long-term decision making critical to creating long-term value for shareholders, and will be granted subject to minimum individual performance requirements being met by the Executive. The value of the grant for: – the Group CEO is 130% of FR – those in Control Roles, 100% of FR – all other Executives, 130% of FR. • The LTVR will only vest at the end of a 4 year performance period if a relative total shareholder return hurdle is achieved. The actual value of the LTVR is subject to the level of achievement against the performance hurdle and NAB's share price at the time of vesting. • LTVR is delivered as performance rights. No dividend equivalent payment will be made for LTVR awards that vest. • All performance rights will be subject to malus and clawback.
Deferral	• The new framework delivers less variable reward as cash and more as deferred rights: – a minimum of 50% of total remuneration is now deferred (at maximum opportunity) – at least one third of deferred variable reward is now subject to long-term relative shareholder return performance.
Board discretion	The Board has increased the rigour and discipline in determining Executive performance and its impact on remuneration outcomes, particularly around non-financial risks and customer outcomes. The Board has absolute discretion to adjust variable reward down or to zero, where appropriate if it determines under-performance or failings in risk, conduct, reputation, values or sustainability measures have occurred. This can be done: • when determining the initial value of variable reward • by reducing the value of deferred variable reward during the deferral or performance period, including at vesting • through clawback of paid or vested variable reward.

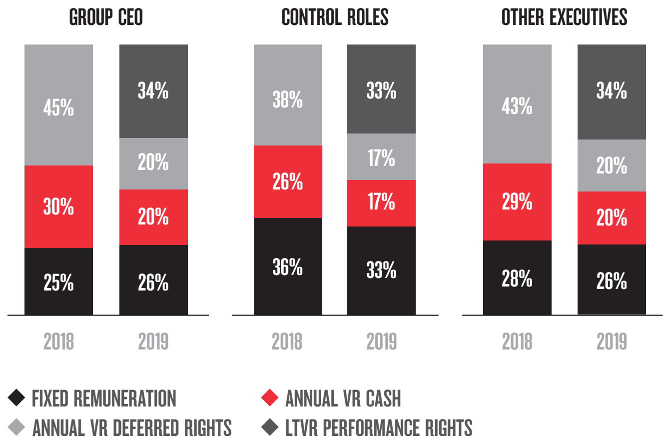
REMUNERATION REPORT (CONTINUED)

Reward mix

The new framework delivers less variable reward as cash and more as deferred equity (a minimum of 50% of total remuneration at maximum opportunity), with at least 33% of the maximum total reward opportunity subject to long-term shareholder return performance.

The figure shows the change in reward mix at maximum opportunity from 2018 for the Group CEO, Control Roles and other Executives. The Chief People Officer role had a reward mix in 2018 the same as the other Executives. The new Chief People Officer who commenced in October 2019 has the 2019 reward mix shown for Control Roles.

The actual remuneration mix is subject to Group and individual performance each year.



On introducing the combined variable reward plan in 2018, a discount to the face value of the 2017 LTI award was applied recognising that performance conditions were more likely to be met. In moving back to Annual VR and LTVR arrangements for 2019, the maximum opportunity values have been set with reference to comparable major Australian peers and also recognises that performance conditions for the LTVR are less certain. In 2018, the un-hurdled maximum variable reward opportunity for Executives, other than Control Roles and the Group CEO, was 255% of FR. Under the new framework, the maximum Annual VR opportunity is 150% of FR and the hurdled LTVR is 130% of FR (see above).

1.2 Timeline for delivery of reward

At maximum opportunity the new framework defers more VR for longer (up to four years), with at least a third of the opportunity subject to achieving long-term shareholder returns. This rewards long-term decisions critical to creating sustainable value for customers and shareholders. Deferring remuneration in the form of equity also aligns Executive remuneration more closely with the shareholder experience.

The Board can determine that all or any unvested deferred variable reward be forfeited at any time. It can also clawback paid or vested variable reward if performance is not delivered over the long-term or for other matters including risk, conduct, reputation, values and sustainability.

	PERFORMANCE YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4
FIXED REMUNERATION	BASE SALARY + SUPER				
ANNUAL VR	CASH	◆ 50%			
	DEFERRED RIGHTS	◆ 12.5%	◆ 12.5%	◆ 12.5%	◆ 12.5%
LONG TERM VR	PERFORMANCE RIGHTS				◆ 100%

◆ ELIGIBLE FOR PAYMENT OR VESTING

1.3 How an Executive's Annual Variable Reward outcome is calculated

Each Executive's Annual VR outcome for the financial year is calculated as:

ONE NAB SCORE (Section 1.4) X **INDIVIDUAL SCORE** (Section 1.5) X **TARGET OPPORTUNITY** (Section 1.3) = **ANNUAL VARIABLE REWARD** (Section 1.6)

- **ONE NAB SCORE** (Section 1.4): The Group's performance over the financial year. ADJUSTED FOR: Risk, reputation, shareholder, sustainability and environment
- **INDIVIDUAL SCORE** (Section 1.5): The Executive's performance over the financial year. ADJUSTED FOR: Conduct and values
- **TARGET OPPORTUNITY** (Section 1.3): FR x Annual VR target %
- **ANNUAL VARIABLE REWARD** (Section 1.6): 50% cash; 50% deferred rights that vest equally from years 1 to 4

REMUNERATION REPORT (CONTINUED)

An Executive's actual Annual VR outcome will range from zero to their maximum Annual VR opportunity. The actual value of the Annual VR depends on both the Group's performance and the Executive's individual performance for the financial year, both of which are assessed against performance goals and determined by the Board (see Sections 1.4 and 1.5). The Board has discretion to adjust any Annual VR outcome as it sees fit, including for risk, conduct, reputation, values and sustainability (see Section 2.3).

If an Executive and the Group performs significantly above expectations, the Executive could earn their maximum Annual VR. Similarly, if the Executive or the Group fails to meet the goals set at the beginning of the financial year, their Annual VR outcome will be less, possibly zero. If the Group and the Executive achieve their goals to the satisfaction of the Board, they will be awarded their target opportunity.

Position	Annual VR Target (% of FR)	Maximum Annual VR opportunity (% of FR)
Group CEO[(1)]	100%	150%
Control Roles	70%	105%
All other Executives	100%	150%

(1) The new Group CEO, Ross McEwan, will commence on a fixed remuneration of $2.5 million per annum as advised in the ASX announcement issued on 19 July 2019.

No Annual VR has been awarded to Executives for 2019. In 2019, our Executives progressed performance against our key customer, risk, people and transformation metrics and delivered solid underlying business performance. But financial results have been impacted by substantial provisions made for customer-related remediation. This year's outcomes also reflect collective accountability for NAB's shortfalls across customer, trust and reputation matters.

1.4 Group Performance and the One NAB Score

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

The Board determines the One NAB Score based on the achievement of performance measures set by the Board at the beginning of the financial year. These include risk-adjusted financial, financial and non-financial measures which support the Group's longer-term strategy. The measures and relative weightings determined by the Board for 2019 were:

RETURN ON TOTAL ALLOCATED EQUITY (ROTAE) (Risk adjusted measure)	CASH EARNINGS (Financial measure)	NET PROMOTER SCORE (Non-financial measure)	TRANSFORMATION (Two thirds non-financial measures / one third financial measures)
50% WEIGHTING	25% WEIGHTING	12.5% WEIGHTING	12.5% WEIGHTING

The final One NAB Score is subject to Board discretion considering qualitative matters such as the quality of the financial results, management of risk, reputation, shareholder expectations, sustainability and the environment.

For 2019, progress against Group performance measures fell short of expectations. Specifically, cash earnings and ROTAE were impacted by substantial provisions made for customer-related remediation. Our customer measure of NPS improved and saw NAB ranked first among our peers, but fell short of our target. Transformation milestones were met, culminating in a successful second year of the acceleration of the One NAB Plan.

The Board has determined that the One NAB Score be reduced to 0% for Executives to reflect overall collective accountability for Group performance and our shortfalls across customer, trust and reputation matters.

The following table shows the determination of the One NAB Score before the application of Board discretion.

Performance measure	Weighting	Outcome	Result
ROTAE	50%	Not met	• 9.9% against plan of 13.3%
Cash earnings	25%	Not met	• $5.10 billion against plan of $6.72 billion
Net Promoter Score[(1)]	12.5%	Below target	• Priority Segments NPS score of -14 is below the target score of -13 (August 2018 to August 2019)
Transformation	12.5%	At target	• Key Transformation milestones for 2019 have been assessed by the Board as met
Board adjusted One NAB Score for Executives		**0%**	• The Board adjusted the One NAB Score to 0% for Executives reflective of the impact of the Group's financial results and the collective accountability for shortfalls across customer, trust and reputation matters

(1) Priority Segments NPS is a simple average of the NPS scores of four priority segments: NAB defined Home Owners (Home Loan @ Bank), 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 DBM Consumer Atlas and BFSM Research.

REMUNERATION REPORT (CONTINUED)

More broadly, the Board is mindful of the need to continue to attract and retain people at all levels and has been conscious to reward the majority of employees who have contributed significantly to our solid underlying business performance and the progress NAB has made against our customer and transformation goals. For the majority of employees, the Board determined a One NAB Score of 50%. This acknowledges the fact that the majority of employees have lifted the bar on customer service and progress towards NAB's desired culture, but reflects the impact of matters where NAB has fallen short on risk, conduct, reputation and values.

1.5 Individual Score

At the start of the financial year, each Executive has balanced scorecard goals set which reflect the Board's performance expectations for them for the year. The goals consist of Group, divisional and individual measures that focus on improving the performance and behaviours that drive exceptional customer service, deliver long-term sustainable returns and progress NAB's desired culture. Each Executive's scorecard complements their accountabilities as set out in their respective BEAR accountability statements.

For 2019, there were five equally weighted goals in each Executive's scorecard:

CUSTOMER	RISK	PEOPLE	TRANSFORMATION	FINANCIALS
20% WEIGHTING	20% WEIGHTING	20% WEIGHTING	20% WEIGHTING	20% WEIGHTING

At the end of the financial year, the Board assesses each Executive's performance against their balanced scorecard. The Board also considers the Executive's conduct and the extent to which they have upheld NAB's values and behaviours (Passion for customers, Be bold, Win together, Respect for people and Do the right thing).

The Board then determines an Individual Score for each Executive (using a five point performance rating scale: Not Achieved, Partially Achieved, Achieved, Highly Achieved or Outstanding). The performance rating is then translated into an individual score (expressed as a percentage of target Annual VR) that is used to calculate the Executive's Annual VR outcome for the financial year.

The performance measures below are the elements that make up the individual Executives' balanced scorecard for 2019. Individuals are assessed across each of these elements as it applies to them. Executives' scorecards contained a mix of Group, divisional and individual measures. Although progress has been made against many of the measures, there was no Annual VR awarded to Executives in respect of 2019 due to the One NAB Score being reduced to 0%.

REMUNERATION REPORT (CONTINUED)

The Executive is assessed against each goal with 20% received on achieving target, up to a maximum of 30%. The overall outcome for the Executive will be between 0% and 150%, with 100% awarded for at target performance. The table below provides the broader assessment of individual Executive performance in 2019 and demonstrates differentiated performance outcomes across Executives in the ranges shown below.

Performance measure	Executives' outcome[(1)]	Commentary
Customer • Priority Segments NPS[(2)] • Operational NPS • Complaint management	10% to 25%	• NAB's Priority Segments NPS score of -14 was two points stronger than 2018, but one point behind target of -13 (August 2018 to August 2019). As at the end of 2019, NAB was placed equal first amongst major banks. • Operational NPS (measuring customers' relationship with NAB) delivered positive results across all components that make up the Operational NPS goal. • NAB's Institutional Relationship Strength Index Ranking finished the year 12 points ahead of target, maintaining its number one ranking. • NAB reduced the top three categories of customer complaints by 9.5% compared with 2018, but did not achieve the target reduction of 25%.
Risk • Adherence to risk frameworks	20%	• Material progress has been made to improve the Group's risk profile, particularly in the areas of risk culture, financial crime and responsible lending, but it is not where NAB want and need it to be. • Continued focus, attention and progress is required to deliver on customer remediation programs, improvements in the control environment and other priority risk programs (including financial crime and compliance). • Progress has been made on customer remediation following the establishment of the Centre for Customer Remediation and a Group-wide comprehensive customer complaints review. • Progress has been made on governance and risk transformation initiatives identified through NAB's self-assessment to APRA.
People • Employee engagement • Gender diversity	0% to 20%	• At 54%, NAB's overall employee engagement is unchanged from 2018, and falls short of the top quartile benchmark (69%). While this is far from NAB's aspiration, it reflects the significant challenges faced during the year. • Gender equality continues to be the tilt of NAB's Diversity and Inclusion strategy, and while results are trending positively compared with 2018, they did not meet 2019 targets.
Transformation • Strategy milestones and outcomes	10% to 25%	• Completed year 2 of the 3 year acceleration of the One NAB Plan transformation agenda, including meeting year 2 simplification and sustainable cost savings targets. Achievements include: – $800 million of cumulative cost savings and a cumulative reduction of 3,713 roles since September 2017 – revenue per business banker increasing 20% – 30% reduction in over-the-counter transactions and 17% reduction in call centre volumes – Product numbers reduced by 30% – IT legacy applications reduced by 11% and 19% migrated to the cloud – UBank customer numbers increased by 40% over the two years to September 2019.
Financials • Cash earnings • ROTAE • Productivity and investment benefits • Balance sheet strength	0% to 20%	• ROE declined 180 basis points to 9.9% reflecting customer-related remediation provisions, the change in policy on capitalised software, higher credit impairment charges and higher levels of equity. • Cost savings of $480 million were achieved (reduction of 1,816 roles). • Achieved broadly flat expense growth for 2019 vs. 2018 (excluding large notable items). • Cost to income ratio decreased 30 basis points to 44.3% (excluding large notable items), reflecting productivity savings from the Group's transformation program. • The Group remained well capitalised during the year to September 2019 with a CET1 ratio of 10.38%. The Group expects to achieve APRA's 'unquestionably strong' capital benchmark from 1 January 2020. • Cash earnings decreased by $605 million or 10.6%. Cash earnings excluding large notable items increased by $52 million or 0.8%.
Overall outcome for individual Executives	**50% to 100%**	• Individual outcomes are reflective of the Executive's performance against their goals which include specific Divisional and individual goals.

(1) The outcome range for each goal is 0% to 30% with an overall outcome range from 0% to 150%. Refer Section 1.3 for how the overall outcome for the individual Executives impacts their Annual VR outcome.

(2) Priority Segments NPS is a simple average of the NPS scores of four priority segments: NAB defined Home Owners (Home Loan @ Bank), 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 DBM Consumer Atlas and BFSM Research.

REMUNERATION REPORT (CONTINUED)

1.6 Executive Annual Variable Reward 2019 outcomes

No Annual VR has been awarded to Executives in 2019. In 2019, our Executives progressed performance against our key customer, risk, people and transformation metrics and delivered solid underlying business performance. But financial results have been impacted by substantial provisions made for customer-related remediation. This year's outcomes also reflect collective accountability for NAB's shortfalls across customer, trust and reputation matters.

1.7 Realised remuneration

The table below is a voluntary non-statutory disclosure that shows the realised remuneration each Executive received (or was entitled to receive) during 2019. The amounts shown include fixed remuneration, Annual VR cash to be paid in respect of 2019, the previous years' deferred VR which vested, and other equity awards that vested during 2019. The value of equity awards is calculated using NAB's closing share price on the vesting or forfeiture or lapsing date. Not all amounts have been prepared in accordance with accounting standards and this information differs to the statutory remuneration table (in Section 5.1) which shows the expense for vested and unvested awards in accordance with accounting standards.

	2019 related remuneration			Prior years' related and other remuneration		
	Fixed(1) remuneration	Annual VR cash	Total	Deferred VR(2) vested	Other vested/(3) paid remuneration	Equity(4) forfeited/ lapsed
Name	$	$	$	$	$	$
Executives						
Mike Baird	1,142,284	-	1,142,284	93,562	12,868	(402,200)
Sharon Cook	933,181	-	933,181	38,112	8,176	(255,509)
Shaun Dooley	1,068,090	-	1,068,090	109,561	12,277	(366,894)
David Gall	1,230,625	-	1,230,625	363,262	-	(850,400)
Anthony Healy	1,225,588	-	1,225,588	499,225	16,175	(532,691)
Gary Lennon	1,141,153	-	1,141,153	437,411	10,482	(620,135)
Angela Mentis	1,676,828	-	1,676,828	586,490	25,765	(238,773)
Rachel Slade	887,952	-	887,952	68,846	245,920	-
Patrick Wright	1,628,608	-	1,628,608	226,932	701,256	-
Former Executives						
Lorraine Murphy (for part year)	423,560	-	423,560	323,630	427,504	(2,083,537)
Andrew Thorburn (for part year)	872,806	-	872,806	1,126,860	1,345,594	(21,712,216)

(1) Includes cash salary, cash value of non-monetary benefits and superannuation consistent with the statutory remuneration table in Section 5.1.

(2) Amounts related to prior year variable rewards which vested or were paid during 2019. Includes deferred STI amounts from the 2016 Tranche 2 and 2017 Tranche 1 STI program which fully vested in November 2018.

(3) Other awards or remuneration which vested or were paid during 2019. Includes General Employee Share Offers granted in March 2016 to Shaun Dooley, Anthony Healy and Gary Lennon which fully vested in March 2019; the third tranche of Rachel Slade's commencement award which fully vested in October 2018; and the fourth tranche of Patrick Wright's commencement award which was paid in March 2019. Dividends received by Executives during 2019 for any unvested share awards are also included. The amount is calculated for the 2018 final dividend of 99 cents (record date of 9 November 2018) and the 2019 interim dividend of 83 cents (record date of 15 May 2019). Both dividends were fully franked. The amount for Andrew Thorburn and Lorraine Murphy relates to the payments and benefit they received on cessation of employment. It includes a termination payment in accordance with their contracts and other separation benefits (see Executive exit arrangements above).

(4) The amounts include the value of lapsed 2013 LTI performance rights for the eligible Executives which were fully forfeited in December 2018; Customer Advocacy Incentive shares granted to Shaun Dooley in February 2017 which were fully lapsed in December 2018; LTI performance rights, deferred STI rights and deferred VR cash that were lapsed on cessation of employment for Andrew Thorburn; LTI performance rights that were fully lapsed on cessation of employment for Lorraine Murphy; and deferred STI performance rights and VR deferred shares fully or partially forfeited in May 2019 for the majority of the 2018 Executive team.

REMUNERATION REPORT (CONTINUED)

1.8 Long Term Variable Reward

For 2019 and going forward, Executives are eligible for an LTVR award each year. The key features of the LTVR award to be awarded in respect of 2019 are:

Feature	Description
Purpose	LTVR awards are granted by the Board to encourage long-term decision making critical to creating long-term value for shareholders. They are determined and awarded independently from Annual VR decisions.
Participants	Executives (the Group CEO and Chief People Officer will not receive an LTVR award in respect of 2019 as they commenced employment after 30 September 2019).
Award value[(1)]	The LTVR award values are: • Control roles - 100% of FR • Other Executives - 130% of FR The LTVR will be granted to the Executive subject to minimum individual performance requirements being met by the Executive. The Board assessed all Executives as meeting the minimum individual performance requirements for 2019 and determined that all Executives would receive the 2019 LTVR grant in full. The actual value delivered to an Executive is subject to the level of achievement against the performance hurdle and NAB's share price at the time of vesting. This may be zero if the performance hurdle is not achieved.
Instrument	Performance rights. Each right entitles the Executive to receive one NAB share at the end of the four year performance period, subject to meeting the performance hurdle.
Allocation approach	A face value allocation approach is used. The number of performance rights to be granted is calculated by dividing the LTVR award value by the weighted average share price over the last five trading days of the financial year. The weighted average share price over the five trading days used for the 2019 financial year is $29.85.
Life of the award	The award is scheduled to be granted in February 2020. The performance rights have a minimum life of approximately four years from February 2020 to December 2023.
Performance period	Four years from 15 November 2019 to 15 November 2023.
Performance hurdle	TSR measures the return that a shareholder receives through dividends (and any other distributions) together with capital gains over a specific period. For the purposes of calculating TSR over the performance period, the value of the relevant shares on the start date and the end date of the performance period is based on the volume weighted average price of those shares over the 30 trading days up to and including the relevant date.
Vesting schedule	NAB's TSR is measured against the TSR Peer Group to determine the level of vesting: **NAB's relative TSR outcome** — **Level of vesting** Below the 50th percentile — 0% At the 50th percentile — 50% Between the 50th and 75th percentiles — Pro-rata vesting from 50% to 100% At the 75th percentile — 100%
TSR Peer Group	AMP Limited, Australia and New Zealand Banking Group Limited, Bank of Queensland Limited, Bendigo & Adelaide Bank Limited, Commonwealth Bank of Australia, Macquarie Group Limited, Suncorp Group Limited, Westpac Banking Corporation.
Dividends	No dividends paid.
Board discretion	Board discretion applies to forfeit grants for qualitative matters including risk, reputation, conduct and performance which are also taken into consideration in the subsequent vesting of the LTVR award as relevant. The Board has increased the rigour and discipline in determining Executive performance and its impact on remuneration outcomes, particularly around non-financial risks and customer outcomes. The Board has discretion to adjust variable reward if it determines under-performance or failings in risk, conduct, reputation, values or sustainability measures have occurred. This can be done: • by reducing the value of the LTVR granted during the performance period, including at vesting • through clawback of vested LTVR. More details on LTVR performance rights terms and conditions are described in Sections 5.6 and 2.3.

(1) On introducing the combined variable reward plan in 2018, a discount to the face value of the 2017 LTI award was applied recognising that performance conditions were more likely to be met. In moving back to Annual VR and LTVR arrangements for 2019, the maximum opportunity values have been set with reference to comparable major Australian peers and also recognises that performance conditions for the LTVR are less certain. In 2018, the un-hurdled maximum variable reward opportunity for Executives, other than Control Roles and the Group CEO, was 255% of FR. Under the new framework, the maximum Annual VR opportunity is 150% of FR and the hurdled LTVR is 130% of FR (see Section 1.1).

Refer to Section 3(a) for details of the previous LTI program that was tested during 2019.

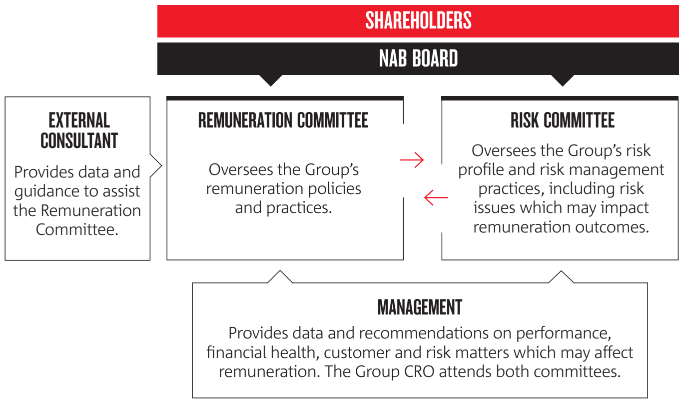
REMUNERATION REPORT (CONTINUED)

Section 2 - Remuneration governance and framework

2.1 The role of the Remuneration Committee

The Remuneration Committee supports the Board to oversee NAB's remuneration policies and practices with the objective that they:
- Support the Group's business strategy, and meet the expectations and requirements of shareholders, customers and regulators.
- Responsibly reward individuals for performance.
- Encourage behaviour that is ethical, delivers sound customer outcomes, supports NAB's long-term financial soundness, and is aligned with NAB's Group risk management framework, purpose and values.
- Are reasonable, fair, and in line with governance, legal and regulatory requirements.

THE REMUNERATION GOVERNANCE FRAMEWORK



The principal activities of the Remuneration Committee include:
- Considering Group performance (with the assistance of the Board Risk Committee) and making a One NAB Score recommendation to the Board, taking into account the overall health of the Group's financial results against the risk management framework, risk appetite and other qualitative factors.
- Considering individual Executive performance in the context of Group performance (with the assistance of the Board Risk Committee), and recommending to the Board annually the fixed remuneration and variable reward outcomes for the Group CEO, Executives and certain other senior management.
- Monitoring and making recommendations regarding deferred equity vesting outcomes.
- Overseeing NAB's employee conduct management framework and consequence management outcomes (including impact on remuneration outcomes).
- Reviewing (at least annually) the effectiveness of the Group's Remuneration Policy and strategy.

The Charter for the Committee can be found on the NAB website at http://www.nab.com.au/about-us/corporate-governance.

2.2 Other activities of the Committee in 2019

In 2019, the Remuneration Committee invested significant time in undertaking a comprehensive review of NAB's Executive remuneration strategy, governance and framework in response to concerns raised by shareholders in 2018. This included consultation with key stakeholders to fully understand their concerns and discuss the principles of NAB's proposed changes to the Executive remuneration framework.

Remuneration design and governance in the financial services industry continues to be dynamic, experiencing increased stakeholder scrutiny and significant regulatory change. Recognising the pace of change, the Remuneration Committee has assisted the NAB Board by undertaking the following additional activities in 2019:
- Overseeing the Group's response to remuneration related matters raised in NAB's self-assessment to APRA, and remuneration related findings of the Royal Commission.
- Overseeing an independent review of the effectiveness of the Group's Remuneration Policy. Throughout 2020, the Remuneration Committee will continue to monitor progress on the actions recommended by the independent reviewer.
- Overseeing enhancements to the detection and review of employee conduct management and consequence management outcomes.
- Overseeing the Group's review of APRA's draft *Prudential Standard CPS 511 Remuneration* and response to APRA's consultation process.
- Considering select strategic people topics to facilitate a deeper focus on the Group's People Strategy during a time of significant transformation.
- Increasing the rigour and discipline in determining Executive performance and its impact on remuneration outcomes, particularly in relation to non-financial risks and customer outcomes.
- Overseeing improvements to the risk assessment process, including:
  - the introduction of a five-point risk assessment rating scale to promote and recognise positive risk behaviours and contributions to cultural change
  - enhanced guidance to all employees on how to assess risk behaviours and outcomes and the impact on overall performance and remuneration outcomes of not fully meeting risk expectations
  - the oversight by divisional Chief Risk Officers of the risk assessments of senior leaders.

REMUNERATION REPORT (CONTINUED)

- Ensuring the Executive remuneration framework accounts for the objectives of the newly formed Board Customer Committee (whose objective is to oversee a significant improvement in the importance given to the voice of the customer in NAB's decision-making and a more intense focus on customer outcomes).
- Considering appropriate exit and appointment arrangements for incoming and departing Executives (including Executives acting on an interim basis), and making recommendations to the Board.
- Enhancing the Committee's oversight of the remuneration arrangements for material risk takers and other senior executives.
- Continuing to monitor the impact of the changes made in response to the Sedgwick Report following full implementation of the retail banking remuneration related recommendations in 2018.

In 2019, external remuneration consultants did not make any remuneration recommendations to the Remuneration Committee.

2.3 Remuneration plan governance

The following arrangements apply to all employees, including Executives, except as specified.

Board discretion	The Board regularly reviews Group performance for risk, reputation, conduct and performance considerations. The Board's review may include the Group's quality of financial results, shareholder experience and other sustainability metrics relevant at the time. Board discretion may apply to any employee across the Group, by division, by role or individual, depending on circumstances. The Board has absolute discretion to adjust Rewards[(1)] down, or to zero, where appropriate (including because of Malus[(2)]). This includes: • determining the initial value of Rewards • reducing the value of deferred Rewards during the deferral or performance period, including at vesting • through clawback of paid and vested Rewards. The Board has absolute discretion to extend the deferral period at any time for any Rewards. For example, the Board may do so if the Board has reason to believe that an employee may not meet conduct standards or comply with their accountability obligations under the *Banking Act 1959* (Cth) or any other analogous or similar legislation or regulations.
Clawback	Clawback (recovery of paid and vested Rewards) may apply to Executives, other accountable persons, some UK employees and other employees.
Forfeiture or lapsing	Unvested Rewards will be forfeited or lapsed if the: • employee resigns • the Board determines that some, or all, of the unvested Rewards be forfeited on cessation of employment with the Group • the Board determines that the unvested Rewards should be forfeited due to conduct standards not being met as set out in the NAB Code of Conduct • the Board determines that the unvested Rewards will be forfeited following the occurrence of a 'Malus Event'[(2)] and/or • the Board exercises its discretion as described above.
Executive mandatory shareholding requirement	Executives are required to accumulate and retain NAB equity[(3)] over a five year period from commencement as KMP to an amount equal to: • two times fixed remuneration for the Group CEO • one times fixed remuneration for the Executives.
Conduct standards	Vesting and grant of all forms of Rewards are subject to the employee meeting conduct standards as set out in NAB's Code of Conduct (NAB's Code of Conduct is found online at: www.nab.com.au).
Hedging policy	Directors and employees are prohibited from protecting the value of their equity Rewards by hedging. Further details are available in the Group Securities Trading Policy, found online at: www.nab.com.au.
Change of control	The Board generally has discretion to determine the treatment of unvested Rewards at the time a change of control event occurs. Vesting of Rewards will not be automatic or accelerated and the Board will retain discretion in relation to the vesting outcome including absolute discretion to forfeit all Rewards.

(1) In this Section, the term 'Rewards' refers to all forms of variable reward including cash provided under a variable reward plan, deferred variable reward (cash and equity), deferred variable reward to be paid or granted, LTVR performance rights, and any variable rewards granted in previous years.
(2) Examples include where the Executive has failed to comply with their accountability obligations under BEAR, has engaged in fraud, dishonesty, gross misconduct, behaviour that may negatively impact the Group's long-term financial soundness or prudential standing or behaviour that brings NAB into disrepute, or has materially breached a representation, warranty, undertaking or obligation to the Group.
(3) Includes NAB shares held by the Executive, equity received under NAB's employee equity plans that has vested and is retained by the Executive, and unvested deferred STI performance rights, VR deferred shares and VR deferred rights.

REMUNERATION REPORT (CONTINUED)

Section 3 - Long Term Incentive outcomes

(a) Testing of 2013 and 2014 LTI awards

The table below shows the performance of the Group against the LTI performance hurdles for the 2013 and 2014 LTI awards which were tested during 2019. Both awards had two TSR performance hurdles. Vesting for both hurdles was based on NAB's TSR result against a defined peer group. The vesting schedule was: 50% vesting at the 50th percentile on a straight line scale up to 100% vesting at the 75th percentile or better. There was no vesting below the 50th percentile.

The performance hurdles for the 2013 LTI, measured over a five year performance period, were not achieved and therefore none of the 2013 LTI performance rights vested during 2019. NAB's TSR over the performance period was 6.4%. The first test of this award in 2018 also resulted in no vesting. Accordingly, this award has been fully lapsed with no value being delivered to any Executives.

The performance hurdles for the 2014 LTI, measured over a four year performance period, were not achieved and therefore none of the 2014 LTI performance rights vested. NAB's TSR over the performance period was 6.4%. The 2014 LTI performance rights are subject to a final test over a five year performance period (10 November 2014 to 10 November 2019) in November 2019.

Details of the LTI awards granted in respect of previous years, including 2013 and 2014, can be found in NAB's previous remuneration reports which are available at www.nab.com.au/about-us/shareholder-centre/financial-disclosuresandreporting/annual-reports-and-presentations.

LTI Award	Performance hurdle	Performance period	Percentile ranking	% of rights vested	% of rights lapsed	% of rights remaining
2013	TSR relative to S&P/ASX50 (50%)[1]	11/11/2013 to 11/11/2018	35th	-	100	-
2013	TSR relative to Top Financial Services (50%)[2]	11/11/2013 to 11/11/2018	43rd	-	100	-
2014	TSR relative to S&P/ASX50 (50%)[3]	10/11/2014 to 10/11/2018	20th	-	-	100
2014	TSR relative to Top Financial Services (50%)[2]	10/11/2014 to 10/11/2018	43rd	-	-	100

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

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

(3) The peer group for this performance hurdle is the Standard & Poors / ASX capitalisation index comprised of the 50 largest companies by market capitalisation in Australia as at 1 October 2014. The following companies were de-listed during the performance period and have been excluded from the performance hurdle test: Asciano, Novion Property Group (formerly CFS Retail PR. TST. Group), Toll Holdings and Westfield. Under the terms of the award, there is no substitution for de-listed companies.

(b) Group historical performance

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

Financial performance measure	2019	2018	2017	2016	2015
Basic earnings per share (cents)	**178.9**	215.6	228.2	242.4	271.7
Cash earnings ($m)	**5,097**	5,702	6,642	6,483	6,222
Dividends paid per share	**$1.82**	$1.98	$1.98	$1.98	$1.98
Company share price at start of year	**$27.81**	$31.50	$27.87	$29.98	$32.54
Company share price at end of year	**$29.70**	$27.81	$31.50	$27.87	$29.98
Absolute Total Shareholder Return for the year	**13.3%**	(5.4%)	20.1%	(0.7%)	(2.0%)

REMUNERATION REPORT (CONTINUED)

Section 4 - Key Management Personnel

(a) Key Management Personnel in 2019

KMP are the directors of NAB and those employees of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group. KMP during 2019 were:

Name	Position	Term as KMP
Non-executive directors		
Ken Henry	Director, Chairman	Full year
Philip Chronican(1)	Director / Interim Group Chief Executive Officer and Chairman-elect	Full year
David Armstrong	Director	Full year
Peeyush Gupta	Director	Full year
Anne Loveridge	Director	Full year
Geraldine McBride	Director	Full year
Douglas McKay	Director	Full year
Ann Sherry	Director	Full year
Anthony Yuen	Director	Full year
Executives		
Mike Baird	Chief Customer Officer - Consumer Banking	Full year
Sharon Cook	Chief Legal and Commercial Counsel	Full year
Shaun Dooley	Group Chief Risk Officer	Full year
David Gall	Chief Customer Officer - Corporate and Institutional Banking	Full year
Anthony Healy	Chief Customer Officer - Business and Private Banking	Full year
Gary Lennon(2)	Group Chief Financial Officer (CFO)	Full year
Angela Mentis	Managing Director and CEO of Bank of New Zealand	Full year
Rachel Slade	Chief Customer Experience Officer	Full year
Patrick Wright	Chief Technology and Operations Officer	Full year
Executives acting on an interim basis		
Greg Braddy(3)	Group CFO (acting from 21 December 2018 to 28 February 2019)	Part year
Julie Rynski(4)	Chief People Officer (acting from 30 March 2019 to 30 September 2019)	Part year
Former Executives		
Lorraine Murphy(5)	Chief People Officer (to 29 March 2019)	Part year
Andrew Thorburn(6)	Executive Director and Group Chief Executive Officer (to 28 February 2019)	Part year

(1) Philip Chronican was a non-executive director until 28 February 2019. He was appointed as the interim Group Chief Executive Officer on 1 March 2019 and will hold that position until 14 November. Effective 15 November 2019 he will transition to Chairman of the Board.
(2) Gary Lennon acted as Group CEO from 21 December 2018 to 28 February 2019 while Andrew Thorburn was on leave.
(3) Greg Braddy returned to his permanent role at the end of the acting period.
(4) Julie Rynski returned to her permanent role at the end of the acting period.
(5) Lorraine Murphy ceased to be a KMP and an employee of NAB and the Group on 29 March 2019.
(6) Andrew Thorburn ceased to be a KMP and an employee of NAB and the Group on 28 February 2019.

(b) KMP changes after 30 September 2019

- The new Group CEO and Managing Director, Ross McEwan, will commence employment with NAB on 2 December 2019.
- Philip Chronican will transition from the interim Group CEO role to Chairman of the Board on 15 November 2019.
- Dr Ken Henry will resign as a director and Chairman of the Board on 14 November 2019.
- Gary Lennon will be acting Group CEO from 15 November to 1 December 2019.
- Susan Ferrier commenced as Chief People Officer and KMP on 1 October 2019.
- Kathryn Fagg will commence as a non-executive director on 16 December 2019 and will stand for election at NAB's 2019 Annual General Meeting.
- Anthony Yuen will retire as a director of NAB following NAB's 2019 Annual General Meeting.

REMUNERATION REPORT (CONTINUED)

Section 5 - Executive statutory remuneration disclosures

5.1. Statutory remuneration

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

		Short-term benefits			Post-employment benefits		Equity-based benefits			
Name		Cash salary[(1)] $	Annual VR cash[(2)] $	Non-monetary[(3)] $	Superannuation[(4)] $	Other long-term benefits[(5)] $	Shares[(6)] $	Rights[(7)] $	Other remuneration[(8)] $	Total[(9)] $
Executives										
Mike Baird	**2019**	**1,079,771**	**-**	**33,713**	**22,148**	**6,652**	**220**	**559,713**	**-**	**1,702,217**
	2018	1,169,141	571,200	28,216	21,225	4,383	166,689	325,422	-	2,286,276
Sharon Cook	**2019**	**907,563**	**-**	**-**	**20,629**	**4,989**	**144**	**290,857**	**-**	**1,224,182**
	2018	768,874	362,880	7,968	22,883	3,288	105,897	144,304	-	1,416,094
Shaun Dooley	**2019**	**1,002,322**	**-**	**7,706**	**22,871**	**35,190**	**56,520**	**190,776**	**-**	**1,315,385**
David Gall	**2019**	**1,181,631**	**-**	**4,454**	**23,334**	**21,206**	**(89,228)**	**713,495**	**-**	**1,854,892**
	2018	1,252,717	305,760	4,992	26,943	21,905	89,228	744,540	-	2,446,085
Anthony Healy	**2019**	**1,199,832**	**-**	**(3,044)**	**22,148**	**6,652**	**28,578**	**1,027,951**	**-**	**2,282,117**
	2018	1,400,464	571,200	76,280	37,876	4,383	167,402	1,080,658	-	3,338,263
Gary Lennon	**2019**	**1,095,249**	**-**	**5,606**	**20,824**	**19,474**	**287**	**739,710**	**-**	**1,881,150**
	2018	1,009,047	418,880	54,123	22,758	18,363	135,088	672,204	-	2,330,463
Angela Mentis	**2019**	**1,302,491**	**-**	**309,404**	**32,544**	**32,389**	**167,281**	**1,066,590**	**-**	**2,910,699**
	2018	1,203,364	571,200	384,931	24,492	27,362	382,232	1,035,857	-	3,629,438
Rachel Slade	**2019**	**859,062**	**-**	**103**	**22,859**	**5,928**	**121,729**	**372,581**	**-**	**1,382,262**
	2018	51,028	19,347	9	1,379	249	31,158	13,914	-	117,084
Patrick Wright[(10)]	**2019**	**1,395,805**	**-**	**204,252**	**20,236**	**8,315**	**313,397**	**726,474**	**36,369**	**2,704,848**
	2018	1,272,377	1,071,000	456,977	-	5,479	312,542	520,834	34,990	3,674,199

REMUNERATION REPORT (CONTINUED)

Name		Short-term benefits: Cash salary[1] $	Short-term benefits: Annual VR cash[2] $	Short-term benefits: Non-monetary[3] $	Post-employment benefits: Superannuation[4] $	Other long-term benefits[5] $	Equity-based benefits: Shares[6] $	Equity-based benefits: Rights[7] $	Other remuneration[8] $	Total[9] $
Executives acting on an interim basis										
Greg Braddy (for part year)[11]	**2019**	**104,169**	**29,774**	**1,199**	**5,133**	**1,940**	**13,347**	**-**	**-**	**155,562**
Julie Rynski (for part year)[12]	**2019**	**355,470**	**106,438**	**10,321**	**11,472**	**1,967**	**25,810**	**13,843**	**-**	**525,321**
Former Executives										
Antony Cahill (for part year)	2018	1,071,159	-	7,733	18,299	12,363	215,305	(1,416,372)	-	(91,513)
Andrew Hagger	2018	1,148,935	357,000	8,149	21,225	20,220	-	1,400,345	752,351	3,708,225
Lorraine Murphy (for part year)[13]	**2019**	**403,091**	**-**	**2,844**	**14,529**	**3,096**	**345,031**	**(401,227)**	**414,636**	**782,000**
	2018	730,027	285,600	7,852	21,225	4,247	198,454	462,183	-	1,709,588
Andrew Thorburn (for part year)[14]	**2019**	**808,553**	**-**	**40,647**	**6,835**	**16,771**	**(244,313)**	**(6,955,235)**	**1,345,594**	**(4,981,148)**
	2018	2,181,408	837,200	40,247	21,318	39,538	244,314	3,026,411	-	6,390,436
Total Executives	**2019**	**11,695,009**	**136,212**	**617,205**	**245,562**	**164,569**	**738,803**	**(1,654,472)**	**1,796,599**	**13,739,487**
Total Executives	2018	13,258,541	5,371,267	1,077,477	239,623	161,780	2,048,309	8,010,300	787,341	30,954,638

(1) Includes cash allowances and short-term compensated absences, such as annual leave entitlements accrued. The 2018 comparative amount has been restated for Angela Mentis due to an adjustment to the prior year salary.
(2) The VR cash received in respect of 2019 is scheduled to be paid on 11 December 2019 in Australia and 28 November 2019 in New Zealand. The cash component of VR received in respect of 2018 was paid in full during 2019 for all Executives (including Executives acting on an interim basis) as previously disclosed, with no adjustment.
(3) Includes any motor vehicle benefits, parking, relocation costs, travel for family members, gifts and other benefits. For international assignees this may include the provision of health fund benefits and personal tax advice. Any related fringe benefits tax is included.
(4) Includes company contributions to superannuation and allocations by employees made by way of salary sacrifice of fixed remuneration. Superannuation contributions are not required to be paid to individuals based in New Zealand but such payments may be made as part of cash salary. The 2018 comparative amount has been restated for Angela Mentis due to an adjustment to the prior year superannuation.
(5) Includes long service leave entitlements accrued based on an actuarial calculation.
(6) 2019 expense based on the grant date fair value, amortised on a straight line basis over the vesting period for:
(a) General Employee shares granted in March 2016, December 2016, December 2017, December 2018 and to be granted in December 2019.
(b) Customer Advocacy Incentive (CAI) shares granted to Shaun Dooley in February 2017 for performance in his previous role. The shares were subject to achievement of 2017 and 2018 NPS targets and service conditions which were not met and were fully lapsed in December 2018.
(c) Commencement shares allocated to Rachel Slade in February 2017 with 24% vested in October 2018 and a further 9% scheduled to vest in October 2019. The shares were subject to performance and service hurdles. The remaining shares vested in October (33%) and July (34%) 2017.
(d) 2017 deferred STI shares granted in February 2018 to Shaun Dooley and Rachel Slade and 2018 deferred STI shares granted in February 2019 to Shaun Dooley, Julie Rynski and Greg Braddy for performance in their previous roles. The shares are restricted for approximately 1 year and subject to performance and service hurdles.
(e) 2018 VR deferred shares granted in February 2019. The shares are restricted for approximately 4 years, subject to performance and service conditions. The Board determined full or partial forfeiture of this award for the majority of the 2018 Senior Executive team in May 2019 and the associated expense has been reversed.
(7) 2019 expense based on the grant date fair value, amortised on a straight line basis over the vesting period for:
(a) 2016 and 2017 deferred STI performance rights granted in February 2017 and December 2017, respectively. The performance rights are granted with half of each grant restricted for approximately 1 year and the remaining half for approximately 2 years.
(b) 2014, 2015, 2016 and 2017 LTI performance rights granted in December 2014 (and for the Group CEO in February 2015), December 2015 (and for the Group CEO in March 2016), December 2016 (and for the Group CEO in February 2017) and in December 2017 under the Group's previous LTI program.
(c) 2019 VR deferred rights scheduled to be granted in February 2020 (Refer to Note 34 Equity-based plans).

REMUNERATION REPORT (CONTINUED)

(d) 2019 LTVR performance rights scheduled to be granted in February 2020 as described in Section 1.8.

(8) Includes remuneration on cessation of employment (refer to (13) and (14)) or exchange rate movements (refer to (10)).

(9) The percentage of 2019 total remuneration related to performance-based remuneration was: Mike Baird 33%, Sharon Cook 24%, Shaun Dooley 19%, David Gall 34%, Anthony Healy 46%, Gary Lennon 39%, Angela Mentis 42%, Julie Rynski 28%, Rachel Slade 36%, Patrick Wright 38%, Andrew Thorburn N/A, Greg Braddy 28%, Lorraine Murphy N/A.

(10) The amount shown in Other remuneration reflects exchange rate movements related to Patrick Wright's commencement award as disclosed in NAB's 2017 Remuneration report.

(11) Greg Braddy received a VR of $49,623 in respect of his performance while acting as Group CFO. The VR will be provided as 60% cash and 40% deferred shares restricted for 3 years in accordance with the Group's Variable Reward Plan.

(12) Julie Rynski received a VR of $177,397 in respect of her performance while acting as CPO. The VR will be provided as 60% cash and 40% deferred rights restricted for 4 years in accordance with the Group's Variable Reward plan and consistent with BEAR deferred remuneration obligations.

(13) On cessation of employment, Lorraine Murphy received a termination payment (in accordance with her contract) and career transition support. Ms Murphy retained 2017 deferred STI rights and 2018 VR deferred shares. The value of the retained equity has been fully accounted for on cessation. That equity remains subject to the relevant performance hurdles and restriction periods. All other unvested awards held by Ms Murphy were fully forfeited or lapsed and the associated expense reversed in accordance with the terms and conditions of the relevant awards.

(14) On cessation of employment, Andrew Thorburn received a termination payment in lieu of notice (in accordance with his contract), transition support and home security for 1 year. All unvested awards held by Mr Thorburn were fully forfeited or lapsed and the associated expense reversed in accordance with the terms and conditions of the relevant awards.

REMUNERATION REPORT (CONTINUED)

5.2 Value of shares and performance rights

The following table shows the number and value of shares and performance rights that were granted by NAB, forfeited, lapsed or vested for each Executive (including Executives acting on an interim basis) during the year to 30 September 2019. A performance right is a right to receive one NAB share subject to the satisfaction of the relevant performance conditions. The value shown is the full accounting value to be expensed over the vesting period, which is generally longer than the current year. Executives (including Executives acting on an interim basis) did not pay any amounts for performance rights that vested and were exercised during 2019. The number of shares provided when the rights exercise is on a one to one basis. There are no amounts unpaid on any of the shares exercised. There have been no changes to the terms and conditions of these awards, or any other awards since the awards were granted. All performance rights that vest are automatically exercised when they vest.

For the awards allocated during the year to 30 September 2019, the maximum number of shares or performance rights that may vest is shown for each Executive (including Executives acting on an interim basis). The maximum value of the equity awards is the number of shares or performance rights subject to NAB's share price at the time of vesting. The minimum number of shares or performance rights and the value of the equity awards is zero if the equity is fully forfeited or lapsed.

Name		Granted[1] No.	Grant date	Forfeited / lapsed[2] No.	Vested[3] No.	Granted $	Forfeited / lapsed[4] $	Vested $
Executives								
Mike Baird	Deferred STI rights	3,918	19/12/2017	-	3,918	-	-	110,370
	VR deferred shares	31,009	27/02/2019	(15,505)	-	856,779	(402,200)	-
Sharon Cook	Deferred STI rights	1,596	19/12/2017	-	1,596	-	-	44,959
	VR deferred shares	19,700	27/02/2019	(9,850)	-	544,311	(255,509)	-
Shaun Dooley	LTI rights	12,548	11/12/2013	(12,548)	-	-	(292,619)	-
	General employee shares	40	2/03/2016	-	40	-	-	994
	CAI Shares	3,185	22/02/2017	(3,185)	-	-	(74,274)	-
	Deferred STI shares	4,588	21/02/2018	-	4,588	-	-	139,246
	Deferred STI shares	4,121	27/02/2019	-	-	101,253	-	-
David Gall	LTI rights	11,214	11/12/2013	(11,214)	-	-	(261,510)	-
	Deferred STI rights	9,554	22/02/2017	-	9,554	-	-	216,016
	Deferred STI rights	11,805	19/12/2017	(6,103)	5,702	-	(158,312)	160,625
	VR deferred shares	16,599	27/02/2019	(16,599)	-	458,630	(430,578)	-
Anthony Healy	LTI rights	8,470	11/12/2013	(8,470)	-	-	(197,520)	-
	General employee shares	40	2/03/2016	-	40	-	-	994
	Deferred STI rights	10,948	22/02/2017	-	10,948	-	-	247,534
	Deferred STI rights	10,008	19/12/2017	-	10,008	-	-	281,925
	VR deferred shares	31,009	27/02/2019	(12,921)	-	856,779	(335,171)	-
Gary Lennon	LTI rights	13,945	11/12/2013	(13,945)	-	-	(325,197)	-
	General employee shares	40	2/03/2016	-	40	-	-	994
	Deferred STI rights	11,058	22/02/2017	-	11,058	-	-	250,021
	Deferred STI rights	7,310	19/12/2017	-	7,310	-	-	205,923
	VR deferred shares	22,740	27/02/2019	(11,370)	-	628,306	(294,938)	-
Angela Mentis	LTI rights	10,239	11/12/2013	(10,239)	-	-	(238,773)	-
	Deferred STI rights	13,269	22/02/2017	-	13,269	-	-	300,012
	Deferred STI rights	11,352	19/12/2017	-	11,352	-	-	319,786
	General employee shares	33	12/12/2018	-	-	798	-	-
	VR deferred shares	31,009	27/02/2019	-	-	856,779	-	-
Rachel Slade	Commencement shares	9,013	22/02/2017	-	9,013	-	-	283,008
	Deferred STI shares	2,883	21/02/2018	-	2,883	-	-	87,499
	VR deferred shares	11,275	27/02/2019	-	-	311,528	-	-
Patrick Wright	Deferred STI rights	9,503	19/12/2017	-	9,503	-	-	267,700
	VR deferred shares	58,143	27/02/2019	-	-	1,606,491	-	-

REMUNERATION REPORT (CONTINUED)

Name		Granted[(1)] No.	Grant date	Forfeited / lapsed[(2)] No.	Vested[(3)] No.	Granted $	Forfeited / lapsed[(4)] $	Vested $
Executives acting on an interim basis								
Greg Braddy	LTI rights	10,239	11/12/2013	(10,239)	-	-	(238,773)	-
	General employee shares	40	2/03/2016	-	40	-	-	994
	CAI Shares	3,185	22/02/2017	(3,185)	-	-	(74,274)	-
	Deferred STI shares	3,738	21/02/2018	-	3,738	-	-	113,448
	General employee shares	33	12/12/2018	-	-	798	-	-
	Deferred STI shares	3,694	27/02/2019	-	-	90,762	-	-
Julie Rynski	Commencement shares	23,985	13/12/2017	-	23,985	-	-	784,310
	General employee shares	33	12/12/2018	-	-	798	-	-
	Deferred STI shares	4,379	27/02/2019	-	-	107,592	-	-
Former Executives								
Lorraine Murphy	LTI rights	39,987	14/12/2016	(39,987)	-	-	(1,010,471)	-
	Deferred STI rights	7,740	22/02/2017	-	7,740	-	-	175,001
	Deferred STI rights	5,848	19/12/2017	-	5,848	-	-	164,738
	LTI rights	42,464	19/12/2017	(42,464)	-	-	(1,073,065)	-
	VR deferred shares	15,504	27/02/2019	-	-	428,376	-	-
Andrew Thorburn	LTI rights	50,834	11/12/2013	(50,834)	-	-	(1,185,449)	-
	LTI rights	204,113	18/02/2015	(204,113)	-	-	(5,008,933)	-
	LTI rights	297,134	9/03/2016	(297,134)	-	-	(7,291,668)	-
	LTI rights	170,794	22/02/2017	(170,794)	-	-	(4,191,285)	-
	Deferred STI rights	30,517	22/02/2017	-	30,517	-	-	689,989
	Deferred STI rights	34,807	19/12/2017	(17,995)	16,812	-	(441,597)	473,594
	LTI rights	95,252	19/12/2017	(95,252)	-	-	(2,337,484)	-

(1) The following securities have been granted during 2019:
a) General Employee Share Offer granted to Angela Mentis, Greg Braddy and Julie Rynski in December 2018.
b) Variable reward deferred shares, allocated in February 2019 (in respect of 2018). The shares are restricted for approximately 38 months after the end of the 2019 performance year.
c) Deferred STI shares, allocated in February 2019 (in respect of 2018) to Shaun Dooley, Greg Braddy and Julie Rynski. The shares are restricted for approximately 14 months after the end of the 2019 performance year.

(2) The following securities have forfeited or lapsed during 2019:
a) Variable reward deferred shares, allocated in February 2019 (in respect of 2018) were partially forfeited for Mike Baird, Sharon Cook, Anthony Healy and Gary Lennon, and fully forfeited for David Gall in May 2019.
b) LTI performance rights allocated in December 2013 fully lapsed in December 2018. Further details are provided in Section 3.
c) Customer Advocacy Incentive (CAI) shares allocated to Shaun Dooley and Greg Braddy in February 2017 fully lapsed in December 2018.
d) 2017 Tranche 2 deferred STI performance rights allocated in December 2017 were fully forfeited for David Gall in May 2019.
e) Andrew Thorburn's unvested 2014, 2015, 2016 and 2017 LTI performance rights and 2017 Tranche 2 deferred STI performance rights were lapsed in February 2019 on cessation of employment. Note: A deferred cash amount of $1,255,800 was also forfeited in February 2019. This amount was in lieu of VR deferred shares that were not approved by shareholders at NAB's 2018 Annual General Meeting.
f)Lorraine Murphy's unvested 2016 and 2017 LTI performance rights were lapsed in March 2019 on cessation of employment.

(3) The following securities have vested during 2019:
a) General Employee Share Offer granted to Shaun Dooley, Anthony Healy, Gary Lennon and Greg Braddy in March 2016, fully vested in March 2019.
b) 2016 Tranche 2 deferred STI performance rights allocated in February 2017, fully vested in November 2018.
c) 2017 Tranche 1 deferred STI performance rights allocated in December 2017, fully vested in November 2018.
d) 2017 deferred STI shares allocated in February 2018, fully vested in November 2018.
e) Commencement shares allocated to Rachel Slade in February 2017 with 24% vested in October 2018. The final 9% is scheduled to vest in October 2019.
f) Commencement shares allocated to Julie Rynski in December 2017 with 40% vested in October 2018. The remainder of the commencement shares vested prior to 2019.

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

REMUNERATION REPORT (CONTINUED)

5.3 Determining the value of equity remuneration

The fair value of shares is set out below for grants provided to Executives (including Executives acting on an interim basis) during 2019. The grant date fair value of each share is determined by the market value of NAB shares and is generally a five day weighted average share price.

Except for the General employee shares in Australia and Asia, the expense for each tranche of shares is amortised on a straight line basis over the vesting period and included in each Executive's (including Executives acting on an interim basis) disclosed remuneration in accordance with statutory accounting requirements. The expense for the General employee shares in Australia and Asia is recognised fully in the year the shares are granted as they are not subject to forfeiture.

No performance rights or performance options have been granted during the year. Shares granted during 2019 have a zero exercise price.

Type of allocation	Grant date	Fair value $	Restriction period end
General Employee Share Offer	12 December 2018	24.19	12 December 2021
Deferred Short-Term Incentive	27 February 2019	24.57	15 November 2019
Deferred Variable Reward	27 February 2019	27.63	15 November 2022

5.4 Performance rights holdings

No performance options or performance rights (i.e. entitlements to NAB shares) are granted to Executives' (including interim Executives') related parties. No performance options (i.e. right requiring payment of a subscription price on vesting) are currently held by the Executives (including interim Executives). The number of performance rights that vested during the year was equivalent to the number of performance rights that were exercised during the year. At 30 September 2019, no performance rights held by the Executives (including interim Executives) were: (i) vested and exercisable; nor (ii) vested but not exercisable.

Name	Balance at beginning of year(1) No.	Granted during year as remuneration No.	Exercised during year No.	Forfeited / lapsed or expired during year No.	Balance at end of year(2) No.
Executives					
Mike Baird	71,806	-	(3,918)	-	67,888
Sharon Cook	33,029	-	(1,596)	-	31,433
Shaun Dooley	43,573	-	-	(12,548)	31,025
David Gall	222,002	-	(15,256)	(17,317)	189,429
Anthony Healy	305,045	-	(20,956)	(8,470)	275,619
Gary Lennon	165,650	-	(18,368)	(13,945)	133,337
Angela Mentis	284,571	-	(24,621)	(10,239)	249,711
Rachel Slade	17,248	-	-	-	17,248
Patrick Wright	88,678	-	(9,503)	-	79,175
Executives acting on an interim basis					
Greg Braddy	28,490	-	-	-	28,490
Julie Rynski	17,248	-	-	-	17,248
Former Executives					
Lorraine Murphy	102,299	-	(13,588)	(82,451)	6,260
Andrew Thorburn	883,451	-	(47,329)	(836,122)	-

(1) Balance may include performance rights granted prior to individuals becoming KMP. For Executives (including Executives acting on an interim basis) who became KMP during 2019, the balance is at the date they became KMP.
(2) For Executives (including Executives acting on an interim basis) who ceased being KMP during 2019, the balance is as at the date they ceased being KMP.

REMUNERATION REPORT (CONTINUED)

5.5 Executives' share ownership

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

Name	Balance at beginning of year[(1)] No.	Granted during year as remuneration No.	Received during year on exercise of performance rights No.	Other changes during year No.	Balance at end of year[(2)] No.
Executives					
Mike Baird	2,000	31,009	3,918	(15,505)	21,422
Sharon Cook	2,000	19,700	1,596	(9,850)	13,446
Shaun Dooley	56,615	4,121	-	(3,185)	57,551
David Gall	93,269	16,599	15,256	(45,187)	79,937
Anthony Healy	71,015	31,009	20,956	(12,759)	110,221
Gary Lennon	76,810	22,740	18,368	(11,370)	106,548
Angela Mentis	82,750	31,042	24,621	-	138,413
Rachel Slade	40,536	11,275	-	(12,000)	39,811
Patrick Wright	2,000	58,143	9,503	-	69,646
Executives acting on an interim basis					
Greg Braddy	37,842	3,694	-	-	41,536
Julie Rynski	61,082	-	-	(1,999)	59,083
Former Executives					
Lorraine Murphy	42,160	15,504	13,588	-	71,252
Andrew Thorburn	273,600	-	47,329	-	320,929

(1) Balance may include shares held prior to individuals becoming KMP. For Executives (including Executives acting on an interim basis) who became KMP during 2019, the balance is at the date they became KMP. The opening balance for Angela Mentis has been restated to include changes in related party shares.
(2) For Executives (including Executives acting on an interim basis) who ceased being KMP during 2019, the balance is as at the date they ceased being KMP.

There are no other holdings or transactions involving equity instruments, other than equity-based compensation, with Executives (including Executives acting on an interim) or their related parties.

5.6 Executive contract terms and equity arrangements

All Executives, including the new Group CEO and new Chief People Officer, are employed on the following contractual terms:

Contractual term	Arrangement
Duration	Permanent ongoing employment.
Notice period[(1)]	• 26 weeks for either NAB or the Group CEO giving notice. • 2 weeks for Mike Baird, Sharon Cook, Rachel Slade and Patrick Wright, giving notice. This will increase to 3 weeks after 3 years service and 4 weeks after 5 years service. 4 weeks for all other current Executives. • 26 weeks for NAB giving notice to any of the Executives.
Variable reward arrangements on separation	• Executives who resign or are dismissed do not receive any current year variable reward and any unvested variable reward will be forfeited unless otherwise determined by the Board. • Unvested variable reward that is retained remains subject to the original terms and conditions. • Executives may be eligible for pro-rata current year variable reward if separation is due to retirement or retrenchment. For the LTVR the number of performance rights retained will be based on the period of service during the LTVR performance period (see Section 1.8). • Forfeiture and clawback arrangements as described in Section 2.3 apply.
Post-employment obligations	Non-compete and non-solicitation obligations apply.

(1) Payment in lieu of notice for some or all of the notice period may be approved by the Board in certain circumstances. Termination payments are not paid on resignation, summary termination or termination for unsatisfactory performance, although the Board may determine exceptions to this. Statutory payments are also payable on termination.

REMUNERATION REPORT (CONTINUED)

Section 6 - Non-executive director remuneration

6.1. Fee policy and pool

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

The total amount of non-executive directors' remuneration is capped at a maximum aggregate fee pool that is approved by shareholders. The current aggregate fee pool of $4.5 million per annum was approved by shareholders at NAB's 2008 Annual General Meeting. The total Board and Committee fees, including superannuation, paid to non-executive directors in 2019 is within the approved aggregate fee pool. Philip Chronican received a special duties fee in his capacity as the interim Group CEO (an executive director role).

2019 decisions and outcomes

- The Board has recognised the need for accountability and accepted the resignation of Chairman Dr Ken Henry (effective November 2019) and determining that all other directors receive a reduction in fees for 2019, equivalent to 20% of 2018 director base fees received.
- Non-executive director fees are generally reviewed annually, including against fee levels paid to board members of other major Australian corporations. As a result of the 2019 fee review, the Board determined not to increase non-executive director Board or Committee fees.
- A new Board Customer Committee was established in March 2019. The Board Customer Committee will oversee a significant improvement in the importance given to the voice of the customer in NAB's decision-making and a more intense focus on customer outcomes. More information on the functions and responsibilities of the Board and its Committees is contained in the 2019 Corporate Governance Statement.

The following table shows the 2019 fees for the Chairman and non-executive directors on the Board (excluding the 20% reduction taken during 2019), and to non-executive directors who participate on Board committees.

	Chairman ($pa)	Non-executive director ($pa)
Board	790,000	230,000
Audit Committee	65,000	32,500
Risk Committee	60,000	30,000
Remuneration Committee	55,000	27,500
Customer Committee[1]	40,000	20,000
Nomination & Governance Committee	-	10,000

(1) The Board approved the establishment of a Customer Committee from 1 March 2019.

REMUNERATION REPORT (CONTINUED)

6.2. Statutory remuneration

The 2019 fees paid to the non-executive directors, takes into account the reduction equivalent to 20% of 2018 director base fees received and changes in their duties and responsibilities during the year, including the Special Duties fee paid to Philip Chronican while interim Group CEO (an executive director role), are set out below:

		Short-term benefits		Post-employment benefits	
		Cash salary and fees[1]	Special duties	Superannuation[2]	Total
Name		$	$	$	$
Non-executive directors					
Ken Henry (Chairman)	**2019**	**769,351**	**-**	**20,649**	**790,000**
	2018	769,831	-	20,169	790,000
Philip Chronican[3]	**2019**	**174,704**	**991,906**	**20,649**	**1,187,259**
	2018	414,486	-	20,169	434,655
David Armstrong	**2019**	**275,851**	**-**	**20,649**	**296,500**
	2018	304,831	-	20,169	325,000
Peeyush Gupta[4]	**2019**	**508,056**	**-**	**20,649**	**528,705**
	2018	659,059	-	20,169	679,228
Anne Loveridge	**2019**	**229,928**	**-**	**19,072**	**249,000**
	2018	274,831	-	20,169	295,000
Geraldine McBride	**2019**	**209,493**	**-**	**18,674**	**228,167**
	2018	242,331	-	20,169	262,500
Douglas McKay[5]	**2019**	**464,593**	**-**	**19,975**	**484,568**
	2018	482,047	-	20,169	502,216
Ann Sherry	**2019**	**229,006**	**-**	**20,464**	**249,470**
	2018	212,707	-	18,458	231,165
Anthony Yuen	**2019**	**241,133**	**-**	**5,367**	**246,500**
	2018	286,604	-	5,896	292,500
Total	**2019**	**3,102,115**	**991,906**	**166,148**	**4,260,169**
Total	2018	3,646,727	-	165,537	3,812,264

(1) The portion of fees in connection with their roles, duties and responsibilities as a non-executive director, and includes attendance at meetings of the Board, and of Board committees and boards of controlled entities, received as cash. No non-monetary benefits were provided to the non-executive directors during 2019.
(2) Reflects compulsory company contributions to superannuation and, where applicable, includes additional superannuation contributions made by NAB, in lieu of payment of fees, at the election of the non-executive director.
(3) Philip Chronican received a Special Duties fee in his capacity as the interim Group CEO (an executive director role) from 1 March 2019. He also received director fees of $50,967 in his capacity as a director on the board of Bank of New Zealand which were paid in NZD.
(4) Peeyush Gupta received fees of $277,205 in his capacity as a director on the board of a number of Group subsidiaries, including as a director of BNZ Life. The director fees relating to BNZ Life were paid in NZD.
(5) Douglas McKay received director fees of $236,402 in his capacity as Chairman of Bank of New Zealand, which were paid in NZD.

6.3. Minimum shareholding policy

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

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

All current non-executive directors' shareholdings requirements have been met.

REMUNERATION REPORT (CONTINUED)

6.4. Non-executive directors' share ownership and other interests

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

Name	Balance at beginning of year[(1)] No.	Acquired No.	Other changes during year No.	Balance at end of year No.
Non-executive directors				
Ken Henry	10,360	-	-	10,360
Philip Chronican	31,000	10,000	(1,000)	40,000
David Armstrong	16,889	1,274	-	18,163
Peeyush Gupta	7,480	-	-	7,480
Anne Loveridge	10,000	-	-	10,000
Geraldine McBride	5,960	1,743	-	7,703
Douglas McKay	10,000	-	-	10,000
Ann Sherry	7,831	-	(375)	7,456
Anthony Yuen	12,464	-	-	12,464

(1) Balance may include shares held prior to individuals becoming KMP.

6.5. Other equity instrument holdings

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

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

6.6 Other relevant interests

The directors from time-to-time invest in various debentures, registered schemes and securities offered by NAB and certain subsidiaries of NAB. The level of interests held directly and indirectly by a director as at 30 September 2019 were:

Directors	Nature of product	Relevant interest (Units)
David Armstrong	Convertible Preference Shares II (NABPB)	900
Peeyush Gupta	MLC Private Equity Co-Investment Fund I	600,000
Peeyush Gupta	MLC Private Equity Co-Investment Fund II	700,000
Peeyush Gupta	MLC PIC-Wholesale Inflation Plus Assertive portfolio Fund	578,438
Ann Sherry	NAB Capital Notes 3 (NABPF)	1,500

Note: The Group offers a range of registered schemes. Ken Henry and Ann Sherry have a relevant interest in the JBWere Cash Trust (ARSN 160 854 277). The JBWere Cash Trust is a registered managed investment scheme which operates as a cash account.

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

REMUNERATION REPORT (CONTINUED)

Section 7 - Loans and other transactions

7.1. Loans

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

Total aggregated loans provided to KMP and their related parties

NAB and the Group	Terms and conditions	Balance at beginning of year $	Interest charged[1] $	Interest not charged[1] $	Write-off[1] $	Balance at end of year $
KMP[2]	Normal	9,664,072	284,689	-	-	9,084,961
	Employee	2,018,248	51,217	-	-	2,483,612
Other related parties[3]	Normal	8,967,535	370,943	-	-	14,261,249

(1) Relates to the period during which the Executive was KMP.
(2) The aggregated loan balance at the end of the year includes loans issued to 22 KMP.
(3) Includes the KMP's related parties, which includes their close family members or any entity they or their close family members control, jointly control or significantly influence.

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

NAB and the Group	Balance at beginning of year $	Interest charged[1] $	Interest not charged $	Write-off $	Balance at end of year $	KMP highest indebtedness during year[2] $
Non-executive directors						
David Armstrong	366,026	14,134	-	-	348,397	-
Douglas McKay	890	24,987	-	-	1,474,685	23,620
Executives						
Mike Baird	4,378,704	178,057	-	-	3,977,848	3,633,235
Sharon Cook	1,166,404	33,650	-	-	1,109,390	1,167,033
David Gall	5,807,978	132,117	-	-	5,280,676	2,413,207
Anthony Healy	-	99,213	-	-	3,812,702	24,218
Gary Lennon	947,359	39,917	-	-	905,696	1,006,956
Angela Mentis	1,291	10,636	-	-	681,362	68,507
Patrick Wright	3,512,652	115,853	-	-	3,421,673	73,593
Executives acting on an interim basis						
Greg Braddy	1,573,389	8,323	-	-	1,558,915	1,573,395
Julie Rynski	-	2,764	-	-	542,963	550,000
Former Executives						
Lorraine Murphy	2,393,105	42,922	-	-	2,362,757	2,435,807
Andrew Thorburn	319,592	1,759	-	-	323,478	55,844

(1) The interest charged may include the impact of interest offset facilities and only relates to the period during which the Executive was KMP.
(2) Represents aggregate highest indebtedness of the KMP during 2019. All other items in this table relate to the KMP and their related parties.

REMUNERATION REPORT (CONTINUED)

7.2. Other transactions

During 2019, a related party of Ann Sherry disposed of 1,500 Convertible Preference Shares (NABPA) and subscribed to 1,500 NAB Capital Notes 3 (NABPF) and a related party of Sharon Cook subscribed to 2,000 NAB Capital Notes 3. NAB Capital Notes 3 were issued by NAB, each with an issue price of $100, and these instruments were still held as at 30 September 2019 by the relevant KMP's related party. From time to time various KMP and their related parties will hold investments in funds that are either managed, related to or controlled by the Group. All such transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions.

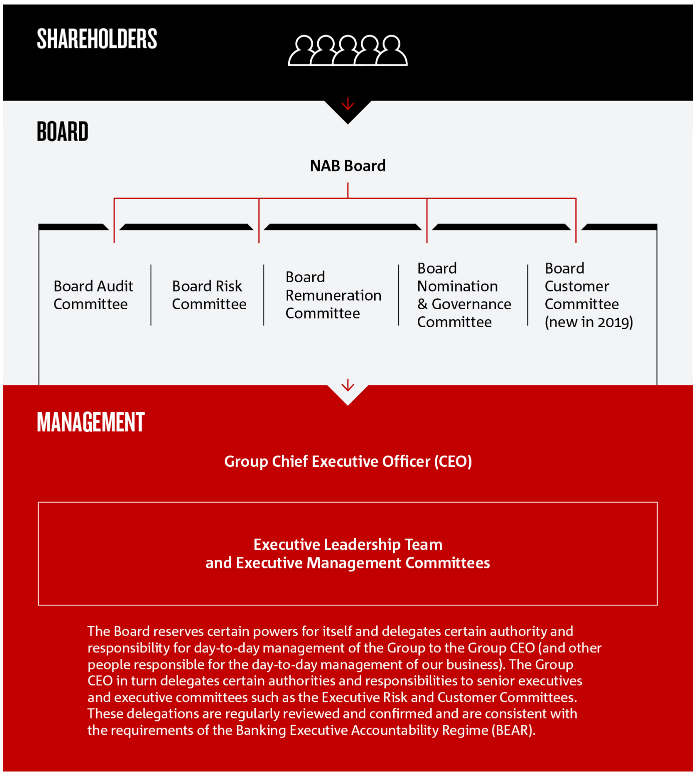
All other transactions that have occurred with KMP are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services including services to eligible international assignees ensuring they are neither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

GOVERNANCE

The Group's corporate governance framework has evolved as NAB seeks continuous improvement.

As a fundamental element of the Group's culture and business practices, the corporate governance framework provides guidance for effective decision making in all areas of the Group through strategic and operational planning, risk management and compliance, financial management and external reporting, succession planning and culture and managing customer experiences and outcomes.

Details of the Group's corporate governance framework and confirmation of NAB's compliance with the 3rd edition of the ASX Corporate Governance Principles and Recommendations, are contained in NAB's 2019 Corporate Governance Statement and Appendix 4G which are published separately in the corporate governance section of the NAB website at www.nab.com.au/about-us/corporate-governance.



Board responsibilities and performance

The Board's responsibilities include:

- Overseeing and guiding the purpose, values, culture, reputation and standards of conduct of the Group.
- Representing shareholders and serving the interests of the Company by overseeing and evaluating the Company's strategies, policies and performance.
- Approving the Group's operating budgets, strategic plan, risk appetite statement, capital management strategy and funding strategy.
- With the guidance of the Board's Risk Committee, reviewing, overseeing and challenging the Company's risk management framework and internal compliance and control systems, and reviewing management's implementation of those frameworks and systems in accordance with regulatory requirements.

The Corporate Governance Statement includes information on the number of meetings held by the Board and its Committees in 2019. Information on directors' attendance at Board and Committee meetings is contained in the Report of the Directors within this Annual Financial Report.

Board renewal

Following the resignation of Group CEO Mr Andrew Thorburn in February 2019, Mr Philip Chronican led NAB as interim Group CEO from March 2019 until 14 November 2019, based on the Board's recognition of his deep banking experience.

Former Chairman Dr Ken Henry resigned from the Board, effective 14 November 2019. Mr Philip Chronican commenced as Chairman of the Board on 15 November 2019.

The Board has appointed Ms Kathryn Fagg as a non-executive director, effective 16 December 2019, who will stand for election at NAB's 2019 Annual General Meeting (AGM) on 18 December 2019. Mr Anthony Yuen will retire from the Board after the 2019 AGM.

The Board announced the appointment of Mr Ross McEwan as incoming Group CEO on 19 July 2019 and he will commence in this role and as Managing Director on 2 December 2019.

The Corporate Governance Statement includes information about the Board's skills matrix, tenure, age profile and gender diversity.

Shareholder engagement

NAB makes use of technology to communicate with all stakeholders by webcasting significant market briefings and meetings, including the AGM (all of which are available on the NAB website at www.nab.com.au/shareholder, as well as the NAB Investor Relations mobile app). Shareholders will again be invited to submit questions in advance of the 2019 AGM to help the Board understand and address areas of interest or concern.

FINANCIAL STATEMENTS

INCOME STATEMENTS

		Group		Company	
For the year ended 30 September	**Note**	**2019 $m**	**2018 $m**	**2019 $m**	**2018 $m**
Interest income		**29,203**	28,543	**27,450**	26,955
Interest expense		**(15,645)**	(15,038)	**(17,333)**	(16,860)
Net interest income	3	**13,558**	13,505	**10,117**	10,095
Other income	4	**4,373**	5,596	**3,006**	5,262
Operating expenses	5	**(9,827)**	(9,910)	**(7,760)**	(7,787)
Credit impairment charge	17	**(927)**	(791)	**(811)**	(707)
Profit before income tax		**7,177**	8,400	**4,552**	6,863
Income tax expense	6	**(2,087)**	(2,455)	**(1,273)**	(1,644)
Net profit for the year from continuing operations		**5,090**	5,945	**3,279**	5,219
Net (loss) after tax for the year from discontinued operations	37	**(289)**	(388)	**-**	-
Net profit for the year		**4,801**	5,557	**3,279**	5,219
Profit attributable to non-controlling interests		**3**	3	**-**	-
Net profit attributable to owners of NAB		**4,798**	5,554	**3,279**	5,219

Earnings per share		**cents**	**cents**
Basic	7	**168.6**	201.3
Diluted	7	**164.4**	194.0
Basic from continuing operations	7	**178.9**	215.6
Diluted from continuing operations	7	**173.9**	207.2

STATEMENTS OF COMPREHENSIVE INCOME

		Group		Company	
For the year ended 30 September	Note	2019 $m	2018 $m	2019 $m	2018 $m
Net profit for the year from continuing operations		**5,090**	5,945	**3,279**	5,219
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gains on defined benefit superannuation plans		**-**	7	**-**	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk		**167**	66	**149**	10
Revaluation of land and buildings		**(2)**	-	**-**	-
Currency adjustments on translation of other contributed equity		**-**	41	**-**	-
Equity instruments at fair value through other comprehensive income reserve:					
Revaluation gains		**15**	19	**6**	15
Tax on items transferred directly to equity		**(50)**	(18)	**(37)**	(1)
Total items that will not be reclassified to profit or loss		**130**	115	**118**	24
Items that will be reclassified subsequently to profit or loss					
Cash flow hedge reserve:					
Gains / (losses) on cash flow hedging instruments		**284**	(26)	**354**	(19)
Cost of hedging reserve		**(260)**	(76)	**(208)**	(1)
Foreign currency translation reserve:					
Currency adjustments on translation of foreign operations, net of hedging		**110**	15	**13**	14
Transfer to the income statement on disposal of foreign operations		**(38)**	(62)	**-**	-
Debt instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		**37**	(88)	**37**	(88)
Gains from sale transferred to the income statement		**(2)**	(9)	**(2)**	(9)
Change in loss allowance on debt instruments		**-**	5	**-**	5
Tax on items transferred directly to equity		**(37)**	38	**(57)**	27
Total items that will be reclassified subsequently to profit or loss		**94**	(203)	**137**	(71)
Other comprehensive income for the year, net of income tax		**224**	(88)	**255**	(47)
Total comprehensive income for the year from continuing operations		**5,314**	5,857	**3,534**	5,172
Net (loss) for the year from discontinued operations	37	**(289)**	(388)	**-**	-
Total comprehensive income for the year		**5,025**	5,469	**3,534**	5,172
Attributable to non-controlling interests		**3**	3	**-**	-
Total comprehensive income attributable to owners of NAB		**5,022**	5,466	**3,534**	5,172

BALANCE SHEETS

		Group		Company	
As at 30 September	Note	2019 $m	2018 $m	2019 $m	2018 $m
Assets					
Cash and liquid assets	8	**55,457**	50,188	**54,811**	49,717
Due from other banks	8	**32,130**	30,568	**29,049**	28,293
Trading instruments	9	**96,828**	78,228	**89,552**	72,961
Debt instruments	10	**40,205**	42,056	**40,166**	41,957
Other financial assets	11	**7,110**	10,041	**6,229**	8,581
Hedging derivatives	18	**4,689**	3,840	**4,059**	2,703
Loans and advances	12	**587,749**	567,981	**506,527**	492,508
Due from customers on acceptances		**2,490**	3,816	**2,490**	3,816
Current tax assets		**-**	-	**-**	82
Property, plant and equipment		**1,117**	1,199	**374**	423
Due from controlled entities		**-**	-	**114,786**	100,483
Investments in controlled entities		**-**	-	**7,979**	10,331
Goodwill and other intangible assets	22	**5,576**	5,787	**2,306**	2,445
Deferred tax assets	6	**2,670**	2,083	**2,021**	1,447
Other assets	23	**11,103**	10,723	**8,817**	8,187
Total assets		**847,124**	806,510	**869,166**	823,934
Liabilities					
Due to other banks	8	**34,273**	38,192	**32,552**	36,371
Trading instruments	9	**34,318**	22,422	**37,945**	25,863
Other financial liabilities	16	**33,283**	30,437	**8,550**	7,381
Hedging derivatives	18	**4,037**	2,547	**2,939**	1,818
Deposits and other borrowings	13	**522,085**	503,145	**463,026**	448,616
Current tax liabilities		**468**	103	**362**	-
Provisions	24	**3,507**	2,196	**3,207**	1,879
Due to controlled entities		**-**	-	**116,033**	102,888
Bonds, notes and subordinated debt	14	**143,258**	140,222	**137,599**	136,110
Other debt issues	15	**6,482**	6,158	**6,482**	6,158
Other liabilities	25	**9,809**	8,376	**8,582**	7,108
Total liabilities		**791,520**	753,798	**817,277**	774,192
Net assets		**55,604**	52,712	**51,889**	49,742
Equity					
Contributed equity	26	**38,707**	35,982	**37,921**	34,221
Reserves	27	**306**	46	**113**	108
Retained profits		**16,583**	16,673	**13,855**	15,413
Total equity (parent entity interest)		**55,596**	52,701	**51,889**	49,742
Non-controlling interest in controlled entities		**8**	11	**-**	-
Total equity		**55,604**	52,712	**51,889**	49,742

CASH FLOW STATEMENTS

For the year ended 30 September(1)	Note	Group 2019 $m	Group 2018 $m	Company 2019 $m	Company 2018 $m
Cash flows from operating activities					
Interest received		**29,471**	28,340	**27,694**	26,749
Interest paid		**(15,992)**	(14,778)	**(17,639)**	(16,635)
Dividends received		**28**	49	**1,370**	2,710
Net trading income (paid) / received		**(1,608)**	9,622	**(1,222)**	9,125
Other operating income received		**3,984**	4,424	**1,736**	1,877
Operating expenses paid		**(7,739)**	(8,824)	**(5,799)**	(6,878)
Income tax paid		**(2,251)**	(2,634)	**(1,515)**	(2,083)
Cash flows from operating activities before changes in operating assets and liabilities		**5,893**	16,199	**4,625**	14,865
Changes in operating assets and liabilities					
Net (increase) / decrease in					
Deposits with central banks and other regulatory authorities		**(566)**	(271)	**(566)**	(271)
Trading securities		**(4,613)**	(1,880)	**(4,421)**	(818)
Other financial assets		**3,201**	5,421	**2,512**	2,448
Loans and advances		**(18,993)**	(27,741)	**(14,117)**	(23,910)
Due from customers on acceptances		**1,294**	2,999	**1,294**	3,001
Other assets		**(794)**	(981)	**(240)**	(1,087)
Net increase / (decrease) in					
Deposits and other borrowings		**16,275**	(1,842)	**12,485**	(6,007)
Other financial liabilities		**1,179**	1,288	**431**	744
Other liabilities and provisions		**1,566**	1,430	**1,737**	2,002
Net funds advanced to and receipts from other banks		**(1,161)**	228	**(1,241)**	226
Net movement in derivative assets and liabilities		**7,129**	(4,046)	**6,449**	(2,018)
Net changes in operating assets and liabilities		**4,517**	(25,395)	**4,323**	(25,690)
Net cash provided by / (used in) operating activities	36	**10,410**	(9,196)	**8,948**	(10,825)
Cash flows from investing activities					
Movement in debt instruments at fair value through other comprehensive income					
Purchases		**(22,567)**	(22,018)	**(22,542)**	(22,018)
Proceeds from disposal and maturity		**25,947**	22,228	**25,859**	22,216
Net movement in other debt and equity instruments		**255**	203	**238**	2
Net movement in amounts due from controlled entities		**-**	-	**(1,227)**	3,898
Net movement in shares in controlled entities		**-**	7	**1,593**	(1,724)
Proceeds from sale of controlled entities, net of cash disposed		**25**	-	**-**	-
Net movement in associates and joint ventures		**67**	(342)	**27**	(342)
Purchase of property, plant, equipment and software		**(1,135)**	(1,051)	**(839)**	(735)
Proceeds from sale of property, plant, equipment and software, net of costs		**21**	19	**(1)**	1
Net cash provided by / (used in) investing activities		**2,613**	(954)	**3,108**	1,298

(1) The cash flow statements include cash flows of discontinued operations for the period up to the date on which the Group lost control of those operations, and cash flows after the loss of control that are directly related to their disposal. The year to 30 September 2019 includes cash outflows related to the Group's discontinued operations, being $95 million (September 2018: $33 million) related to the Group's life insurance business and $nil (September 2018: $618 million) related to CYBG.

CASH FLOW STATEMENTS (CONTINUED)

For the year ended 30 September		Group 2019 $m	Group 2018 $m	Company 2019 $m	Company 2018 $m
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(31,001)**	(22,951)	**(26,430)**	(17,009)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**27,159**	32,139	**21,542**	26,913
Proceeds from issue of ordinary shares, net of costs		**1,000**	-	**1,000**	-
Repayments of other contributed equity		**(722)**	-	**-**	-
Proceeds from other debt issues, net of costs		**1,858**	-	**1,858**	-
Repayments of other debt issues		**(799)**	(41)	**(799)**	(41)
Dividends and distributions paid (excluding dividend reinvestment plan)		**(3,266)**	(4,221)	**(3,242)**	(4,177)
Net cash provided by / (used in) financing activities		**(5,771)**	4,926	**(6,071)**	5,686
Net increase / (decrease) in cash and cash equivalents		**7,252**	(5,224)	**5,985**	(3,841)
Cash and cash equivalents at beginning of period		**37,946**	39,800	**36,368**	36,831
Effects of exchange rate changes on balance of cash held in foreign currencies		**1,828**	3,370	**1,811**	3,378
Cash and cash equivalents at end of year	36	**47,026**	37,946	**44,164**	36,368

STATEMENTS OF CHANGES IN EQUITY

Group	Contributed equity[(1)] $m	Reserves[(2)] $m	Retained profits $m	Total $m	Non-controlling interest in controlled entities $m	Total equity $m
Year to 30 September 2018						
Balance at 1 October 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
Year to 30 September 2019						
Net profit for the year from continuing operations	**-**	**-**	**5,087**	**5,087**	**3**	**5,090**
Net (loss) for the year from discontinued operations	**-**	**-**	**(289)**	**(289)**	**-**	**(289)**
Other comprehensive income for the year from continuing operations	**-**	**114**	**110**	**224**	**-**	**224**
Total comprehensive income for the year	**-**	**114**	**4,908**	**5,022**	**3**	**5,025**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares	**2,803**	**-**	**-**	**2,803**	**-**	**2,803**
Conversion of preference shares	**750**	**-**	**-**	**750**	**-**	**750**
Transfer from / (to) retained profits	**-**	**(99)**	**99**	**-**	**-**	**-**
Transfer from equity-based compensation reserve	**147**	**(147)**	**-**	**-**	**-**	**-**
Equity-based compensation	**-**	**105**	-	**105**	**-**	**105**
Dividends paid	**-**	**-**	**(4,983)**	**(4,983)**	**(4)**	**(4,987)**
Distributions on other equity instruments	**-**	**-**	**(83)**	**(83)**	**-**	**(83)**
Redemption of Trust Preferred Securities	**(975)**	**287**	**(31)**	**(719)**	**-**	**(719)**
Changes in ownership interests[(3)]						
Movement of non-controlling interest in controlled entities	**-**	**-**	**-**	**-**	**(2)**	**(2)**
Balance at 30 September 2019	**38,707**	**306**	**16,583**	**55,596**	**8**	**55,604**

(1) Refer to Note 26 Contributed equity for further details.
(2) Refer to Note 27 Reserves for further details.
(3) Changes in ownership interests in controlled entities that do not result in a loss of control.

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

Company	Contributed equity[(1)] $m	Reserves[(2)] $m	Retained profits $m	Total equity $m
Year to 30 September 2018				
Balance at 1 October 2017	32,866	190	15,545	48,601
Net profit for the year from continuing operations	-	-	5,219	5,219
Other comprehensive income for the year from continuing operations	-	(56)	9	(47)
Total comprehensive income for the year	-	(56)	5,228	5,172
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Issue of ordinary shares	1,182	-	-	1,182
Transfer from / (to) retained profits	-	1	(1)	-
Transfer from equity-based compensation reserve	173	(173)	-	-
Equity-based compensation	-	146	-	146
Dividends paid	-	-	(5,299)	(5,299)
Distributions on other equity instruments	-	-	(60)	(60)
Balance at 30 September 2018	34,221	108	15,413	49,742
Year to 30 September 2019				
Net profit for the year from continuing operations	**-**	**-**	**3,279**	**3,279**
Other comprehensive income for the year from continuing operations	**-**	**151**	**104**	**255**
Total comprehensive income for the year	**-**	**151**	**3,383**	**3,534**
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Issue of ordinary shares	**2,803**	**-**	**-**	**2,803**
Conversion of preference shares	**750**	**-**	**-**	**750**
Transfer from / (to) retained profits	**-**	**(104)**	**104**	**-**
Transfer from equity-based compensation reserve	**147**	**(147)**	**-**	**-**
Equity-based compensation	**-**	**105**	**-**	**105**
Dividends paid	**-**	**-**	**(4,983)**	**(4,983)**
Distributions on other equity instruments	**-**	**-**	**(62)**	**(62)**
Balance at 30 September 2019	**37,921**	**113**	**13,855**	**51,889**

(1) Refer to Note 26 Contributed equity for further details.
(2) Refer to Note 27 Reserves for further details.

INTRODUCTION

NOTE 1
BASIS OF PREPARATION AND MEASUREMENT

These are the financial statements of National Australia Bank Limited (Company) together with its controlled entities (Group) for the year ended 30 September 2019. National Australia Bank Limited, incorporated and domiciled in Australia, is a for-profit company limited by shares which are publicly traded on the Australian Securities Exchange.

The directors resolved to authorise the issue of these financial statements on 15 November 2019. The directors have the power to amend and reissue the financial statements.

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

Basis of preparation

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

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

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

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

Basis of measurement

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

NOTE 1 BASIS OF PREPARATION AND MEASUREMENT (CONTINUED)

Change in accounting policies

The Group adopted AASB 15 *Revenue from Contracts with Customers* which introduces a single principles-based five step model for recognising revenue, and introduces the concept of recognising revenue when an obligation to a customer is satisfied. The adoption of AASB 15 did not have a material impact on the Group's financial statements.

Critical accounting assumptions and estimates

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

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

Future accounting developments

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

AASB 16 *Leases* significantly changes accounting for lessees, requiring recognition of all leases (subject to certain exceptions) on-balance sheet in a manner comparable to finance leases currently accounted under AASB 117 *Leases*. Lessor accounting remains unchanged compared to AASB 117. The Group will adopt AASB 16 from 1 October 2019. The Group will apply AASB 16 using the modified retrospective transition option. All right-of-use assets will be measured with respect to the associated lease liability on the date of transition as opposed to measuring them as if AASB 16 had always been applied (often referred to as the simplified approach). The Group will recognise approximately $1,502 million of right-of-use assets and $1,464 million of lease liabilities on transition. The difference of $38 million relates to make-good provisions recognised as part of the right-of-use asset but not the lease liability.

AASB Interpretation 23 *Uncertainty over Income Tax Treatments* clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* where there is uncertainty over income tax treatments. The Group will adopt AASB Interpretation 23 from 1 October 2019. The adoption is not expected to have a material impact to the Group's financial statements.

In October 2019, the AASB issued AASB 2019-3 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform* that provides exemptions from certain hedge accounting qualification requirements in IFRS 9 *Financial Instruments* in response to market-wide benchmark interest rate reform. The amendments permit an entity to assume no impact to existing hedge accounting relationships subject to the reform, thereby allowing a continuation of hedge accounting. The amendments apply to annual periods beginning on or after 1 January 2020. The Group is assessing the impact of these amendments.

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

FINANCIAL PERFORMANCE

OVERVIEW

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

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

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

Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for items the Group considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the year ended 30 September 2019 has been adjusted for distributions, fair value and hedge ineffectiveness, amortisation of acquired intangible assets and MLC Wealth divestment separation costs.

Cash earnings does not purport to represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a cash flow statement.

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

NOTE 2
SEGMENT INFORMATION

	2019					
	Business and Private Banking $m	Consumer Banking and Wealth $m	Corporate and Institutional Banking $m	New Zealand Banking $m	Corporate Functions and Other[1] $m	Total $m
Reportable segment information						
Net interest income	5,634	3,918	1,827	1,828	335	13,542
Other income	1,037	1,389	1,539	571	(857)	3,679
Net operating income	6,671	5,307	3,366	2,399	(522)	17,221
Operating expenses	(2,265)	(3,051)	(1,281)	(911)	(1,505)	(9,013)
Underlying profit / (loss)	4,406	2,256	2,085	1,488	(2,027)	8,208
Credit impairment charge	(336)	(314)	(70)	(103)	(96)	(919)
Cash earnings / (deficit) before tax and distributions	4,070	1,942	2,015	1,385	(2,123)	7,289
Income tax (expense) / benefit	(1,230)	(576)	(507)	(388)	592	(2,109)
Cash earnings / (deficit) before distributions	2,840	1,366	1,508	997	(1,531)	5,180
Distributions	-	-	-	-	(83)	(83)
Cash earnings / (deficit)	2,840	1,366	1,508	997	(1,614)	5,097
Fair value and hedge ineffectiveness	(3)	-	(23)	12	(9)	(23)
Other non-cash earnings items	-	(19)	-	-	32	13
Net profit / (loss) for the year from continuing operations	2,837	1,347	1,485	1,009	(1,591)	5,087
Net (loss) after tax for the year from discontinued operations	-	-	-	-	(289)	(289)
Net profit / (loss) attributable to the owners of NAB	2,837	1,347	1,485	1,009	(1,880)	4,798
Reportable segment assets	200,799	230,916	295,042	84,307	36,060	847,124

(1) Includes customer-related remediation and capitalised software change. Refer Note 3 Net interest income, Note 4 Other income and Note 5 Operating expenses for further details. It also includes Group eliminations.

	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	Total $m
Reportable segment information						
Net interest income	5,539	3,964	1,882	1,698	384	13,467
Other income	1,068	1,541	1,451	520	(70)	4,510
Net operating income	6,607	5,505	3,333	2,218	314	17,977
Operating expenses	(2,230)	(3,046)	(1,297)	(869)	(1,550)	(8,992)
Underlying profit / (loss)	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 earnings items	-	(30)	-	-	88	58
Net profit / (loss) for the year from continuing operations	2,905	1,536	1,554	920	(973)	5,942
Net (loss) after tax for the year from discontinued operations	-	-	-	-	(388)	(388)
Net profit / (loss) attributable to the owners of NAB	2,905	1,536	1,554	920	(1,361)	5,554
Reportable segment assets	199,750	228,705	263,752	79,130	35,173	806,510

(1) Includes customer-related remediation and restructuring-related costs. Refer Note 4 Other income and Note 5 Operating expenses for further details. It also includes Group eliminations.

NOTE 2 SEGMENT INFORMATION (CONTINUED)

Major customers

No single customer contributes revenue greater than 10% of the Group's revenues.

Geographical information

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

	Group			
	Income		Non-current assets[1]	
	2019 $m	**2018 $m**	**2019 $m**	**2018 $m**
Australia	**14,688**	15,825	**6,537**	6,884
New Zealand	**2,537**	2,368	**690**	741
Other International	**776**	965	**47**	41
Total before inter-geographic eliminations	**18,001**	19,158	**7,274**	7,666
Elimination of inter-geographic items	**(70)**	(57)	**-**	-
Total	**17,931**	19,101	**7,274**	7,666

(1) Consists of goodwill and other intangible assets, property, plant and equipment and investments in joint ventures and associates. Comparative information has been restated in accordance with changes in presentation.

NOTE 3
NET INTEREST INCOME

Accounting policy

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

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

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

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Interest income				
Due from other banks	**506**	634	**432**	553
Marketable debt securities	**2,335**	2,146	**2,185**	2,022
Loans and advances	**24,942**	24,477	**20,093**	19,825
Due from customers on acceptances	**155**	248	**155**	248
Due from controlled entities	**-**	-	**3,398**	3,324
Other interest income	**1,265**	1,038	**1,187**	983
Total interest income	**29,203**	28,543	**27,450**	26,955
Interest expense				
Due to other banks	**638**	605	**622**	585
Deposits and other borrowings	**9,291**	8,825	**7,916**	7,523
Bonds, notes and subordinated debt	**4,572**	4,558	**3,902**	3,909
Due to controlled entities	**-**	-	**3,753**	3,797
Bank levy	**383**	370	**383**	370
Other debt issues	**243**	242	**243**	242
Other interest expense	**518**	438	**514**	434
Total interest expense	**15,645**	15,038	**17,333**	16,860
Net interest income	**13,558**	13,505	**10,117**	10,095

Customer-related remediation

In the 2019 financial year, customer-related remediation of $72 million (2018: $nil) was recognised as a reduction in other interest income. These costs mainly relate to the refund of interest from various banking-related remediation matters.

NOTE 4
OTHER INCOME

Accounting policy

Classes of other income are measured as follows:

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

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Gains less losses on financial instruments at fair value				
Trading instruments	**2,320**	743	**1,820**	675
Hedge ineffectiveness	**103**	557	**4**	370
Financial instruments designated at fair value	**(983)**	225	**(445)**	80
Total gains less losses on financial instruments at fair value	**1,440**	1,525	**1,379**	1,125
Other operating income				
Dividend revenue				
Controlled entities	**-**	-	**1,343**	2,675
Other entities	**26**	38	**27**	35
Banking fees	**1,064**	1,008	**876**	840
Money transfer fees	**551**	573	**409**	439
Fees and commissions	**839**	1,916	**(1,071)**	77
Investment management fees	**297**	312	**15**	-
Other income	**156**	224	**28**	71
Total other operating income	**2,933**	4,071	**1,627**	4,137
Total other income	**4,373**	5,596	**3,006**	5,262

Customer-related remediation

In the 2019 financial year, customer-related remediation of $1,135 million (2018: $249 million) in continuing operations and $351 million (2018: $50 million) in discontinued operations was recognised as a reduction in fees and commissions. This related to:

- refunds and compensation to customers impacted by issues in the Wealth business, including adviser service fees charged by NAB Financial Planning and NAB Advice Partnership, combined with the Wealth advice review
- banking-related matters, including matters where customers were incorrectly charged fees on certain fee-exempt transactions.

NOTE 5
OPERATING EXPENSES

Accounting policy

Annual leave, long service leave and other employee benefits

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

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

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

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Personnel expenses				
Salaries and related on-costs	**3,517**	3,345	**2,680**	2,578
Superannuation costs-defined contribution plans	**276**	266	**245**	238
Performance-based compensation	**407**	622	**253**	465
Other expenses	**282**	728	**256**	645
Total personnel expenses	**4,482**	4,961	**3,434**	3,926
Occupancy-related expenses				
Operating lease rental expense	**447**	451	**466**	484
Other expenses	**98**	133	**84**	101
Total occupancy-related expenses	**545**	584	**550**	585
General expenses				
Fees and commission expense	**540**	612	**44**	35
Depreciation of property, plant and equipment	**297**	304	**149**	155
Amortisation of intangible assets	**1,115**	476	**875**	375
Advertising and marketing	**200**	226	**159**	190
Charge to provide for operational risk event losses	**591**	295	**608**	596
Communications, postage and stationery	**179**	206	**149**	174
Computer equipment and software	**728**	657	**662**	613
Data communication and processing charges	**80**	75	**54**	49
Professional fees	**632**	799	**519**	665
Impairment losses recognised	**19**	174	**254**	30
Other expenses	**419**	541	**303**	394
Total general expenses	**4,800**	4,365	**3,776**	3,276
Total operating expenses	**9,827**	9,910	**7,760**	7,787

NOTE 5 OPERATING EXPENSES (CONTINUED)

Customer-related remediation

In the 2019 financial year, customer-related remediation of $364 million (2018: $111 million) was recognised as a charge to provide for operational risk event losses. This includes costs for implementing remediation processes.

Capitalised software policy change

In the 2019 financial year, the Group made a change to the application of the software capitalisation policy by increasing the capitalisation threshold from $0.5 million to $2 million. The impact of this change was an accelerated amortisation charge of $494 million recognised as amortisation of intangible assets.

Impairment losses

In the 2019 financial year, the Company recognised an amount of $249 million relating to the impairment of its investment in National Wealth Management Holding (NWMH) Limited. The impairment impacts the profit or loss of the Company and not the Group. The majority of NWMH Limited's cash flows are included in the Consumer Banking and Wealth cash-generating unit for purposes of testing goodwill for impairment in the Group.

The impairment in the investment has been driven by the current industry challenges facing the wealth management business.

Restructuring-related costs

In the 2018 financial 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 in 2018 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.

NOTE 6
INCOME TAX

Accounting policy

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

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

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

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

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

Income tax expense

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

	Group		Company	
	2019	**2018**	**2019**	**2018**
	$m	**$m**	**$m**	**$m**
Profit before income tax	**7,177**	8,400	**4,552**	6,863
Prima facie income tax expense at 30%	**2,153**	2,520	**1,366**	2,059
Tax effect of permanent differences:				
Assessable foreign income	**7**	7	**4**	4
Foreign tax rate differences	**(67)**	(38)	**(26)**	(22)
Losses not tax effected	**2**	4	**1**	4
Foreign branch income not assessable	**(50)**	(61)	**(50)**	(61)
Over provision in prior years	**(1)**	(3)	**-**	(3)
Offshore banking unit income	**(53)**	(62)	**(38)**	(50)
Restatement of deferred tax balances for tax rate changes	**2**	-	**2**	-
Non-deductible hybrid distributions	**73**	72	**73**	72
Dividend income adjustments	**-**	-	**(187)**	(588)
Other	**21**	16	**128**	229
Income tax expense	**2,087**	2,455	**1,273**	1,644
Current tax expense	**2,771**	2,734	**1,930**	1,868
Deferred tax expense	**(684)**	(279)	**(657)**	(224)
Total income tax expense	**2,087**	2,455	**1,273**	1,644

NOTE 6 INCOME TAX (CONTINUED)

Deferred tax assets and liabilities

The balance comprises temporary differences attributable to:

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Deferred tax assets				
Specific provision for credit impairment	**225**	205	**182**	165
Collective provision for credit impairment	**917**	834	**787**	706
Employee entitlements	**250**	266	**219**	230
Tax losses	**67**	72	**67**	72
Unrealised derivatives in funding vehicles	**316**	362	**-**	-
Other provisions	**759**	323	**739**	305
Depreciation	**269**	99	**156**	4
Other	**308**	220	**186**	171
Total deferred tax assets	**3,111**	2,381	**2,336**	1,653
Set-off of deferred tax liabilities pursuant to set-off provisions	**(441)**	(298)	**(315)**	(206)
Net deferred tax assets	**2,670**	2,083	**2,021**	1,447
Deferred tax liabilities				
Intangible assets	**7**	8	**-**	-
Depreciation	**47**	109	**-**	37
Defined benefit superannuation plan assets	**16**	14	**8**	7
Other	**371**	167	**307**	162
Total deferred tax liabilities	**441**	298	**315**	206
Deferred tax liabilities set-off against deferred tax assets pursuant to set-off provisions	**(441)**	(298)	**(315)**	(206)
Net deferred tax liability	**-**	-	**-**	-

Deferred tax assets not brought to account

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

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Capital gains tax losses	**1,121**	1,129	**1,121**	1,129
Income tax losses	**350**	339	**350**	339

NOTE 7
EARNINGS PER SHARE

	Group			
	Basic		Diluted	
	2019	2018	2019	2018
Earnings ($m)				
Net profit attributable to owners of NAB	4,798	5,554	4,798	5,554
Distributions on other equity instruments	(83)	(100)	(83)	(100)
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	-	-	165	128
Interest expense on convertible preference shares	-	-	90	122
Adjusted earnings	4,715	5,454	4,970	5,704
Net (loss) after tax for the year from discontinued operations	(289)	(388)	(289)	(388)
Adjusted earnings from continuing operations	5,004	5,842	5,259	6,092
Weighted average number of ordinary shares (millions)				
Weighted average ordinary shares (net of treasury shares)	2,797	2,709	2,797	2,709
Potential dilutive weighted average ordinary shares				
Convertible notes	-	-	133	104
Convertible preference shares	-	-	88	118
Share based payments	-	-	6	9
Total weighted average ordinary shares	2,797	2,709	3,024	2,940
Earnings per share (cents) attributable to owners of NAB	168.6	201.3	164.4	194.0
Earnings per share (cents) from continuing operations	178.9	215.6	173.9	207.2
Earnings per share (cents) from discontinued operations	(10.3)	(14.3)	(9.6)	(13.2)

FINANCIAL INSTRUMENTS

OVERVIEW

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

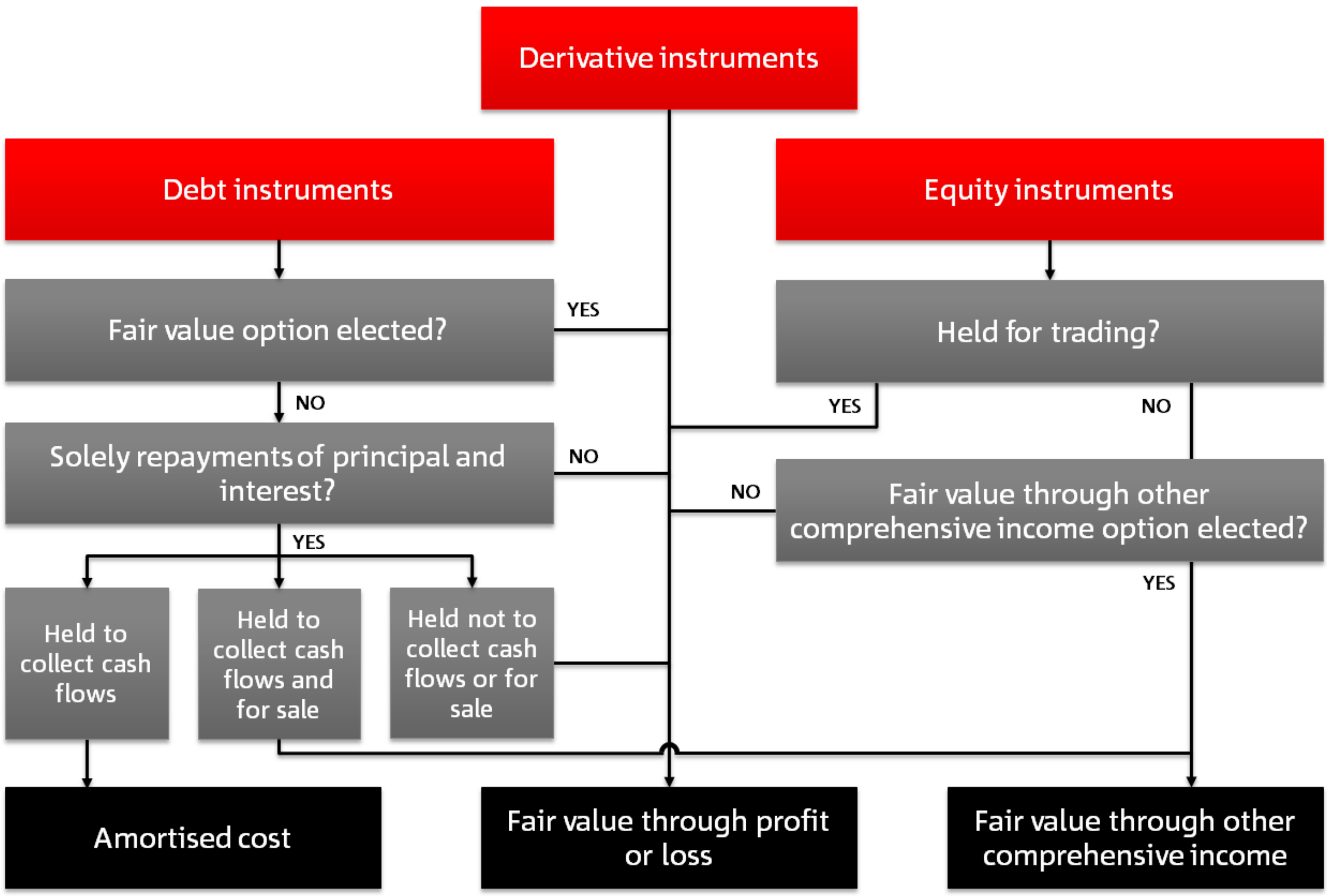
Initial recognition of financial instruments

Accounting for a financial instrument begins at initial recognition. A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument, which is generally on trade date.

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

Classification

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



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

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

Measurement

In 2014 the Group early adopted AASB 9 *Financial Instruments* (2014). At that time, the Group elected an accounting policy choice under AASB 9 to continue to apply the hedge accounting requirements under AASB 139 *Financial Instruments: Recognition and measurement*. The Group adopted the hedge accounting provisions under AASB 9 from 1 April 2018.

OVERVIEW (CONTINUED)

Financial instruments measured at amortised cost

Amortised cost is the amount at which a financial asset or financial liability is measured at initial recognition adjusted for principal repayments, amortisation, any relevant transaction costs, premiums or discounts in accordance with the effective interest method and, for financial assets, any loss allowance.

Financial assets measured at fair value through other comprehensive income

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

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

Financial instruments at fair value through profit or loss

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

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

Derivative financial instruments and hedge accounting

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

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

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

Derecognition of financial instruments

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

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

OVERVIEW (CONTINUED)

Summary of classification and measurement basis

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

(1) The classification of the fair value movements will depend on the type of hedge (i.e. fair value hedge, cash flow hedge, or hedge of a net investment). Refer to Note 18 Hedge accounting.
(2) Except for changes in own credit risk which are recognised in other comprehensive income.

NOTE 8
CASH AND BALANCES WITH OTHER BANKS

Accounting policy

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

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

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

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Cash and liquid assets				
Coins, notes and cash at bank	**1,003**	919	**850**	770
Securities purchased under agreements to resell	**53,201**	48,069	**52,976**	48,015
Other (including bills receivable and remittances in transit)	**1,253**	1,200	**985**	932
Total cash and liquid assets	**55,457**	50,188	**54,811**	49,717
Due from other banks				
Central banks and other regulatory authorities	**9,058**	15,759	**7,481**	14,421
Other banks	**23,072**	14,809	**21,568**	13,872
Total due from other banks	**32,130**	30,568	**29,049**	28,293
Due to other banks				
Central banks and other regulatory authorities	**7,768**	17,049	**7,693**	17,049
Other banks	**26,505**	21,143	**24,859**	19,322
Total due to other banks	**34,273**	38,192	**32,552**	36,371

NOTE 9
TRADING INSTRUMENTS

Accounting policy

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

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

	Group				Company			
	2019 Assets $m	2018 Assets $m	2019 Liabilities $m	2018 Liabilities $m	2019 Assets $m	2018 Assets $m	2019 Liabilities $m	2018 Liabilities $m
Trading derivatives	**35,545**	24,997	**34,318**	22,422	**35,007**	25,996	**37,945**	25,863
Trading securities	**61,283**	53,231	**-**	-	**54,545**	46,965	**-**	-
Total trading instruments	**96,828**	78,228	**34,318**	22,422	**89,552**	72,961	**37,945**	25,863

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

	Group				Company			
	2019 Assets $m	2018 Assets $m	2019 Liabilities $m	2018 Liabilities $m	2019 Assets $m	2018 Assets $m	2019 Liabilities $m	2018 Liabilities $m
Foreign exchange rate-related contracts								
Spot and forward contracts	**6,727**	5,764	**6,913**	5,199	**5,772**	5,156	**6,084**	4,702
Cross currency swaps	**8,478**	7,520	**10,286**	6,991	**8,800**	8,372	**14,385**	10,652
Options / swaptions	**241**	120	**138**	174	**239**	119	**139**	175
Total foreign exchange rate-related contracts	**15,446**	13,404	**17,337**	12,364	**14,811**	13,647	**20,608**	15,529
Interest rate-related contracts								
Forward rate agreements	**27**	3	**17**	3	**27**	3	**16**	3
Swaps	**18,584**	10,494	**15,364**	8,986	**18,677**	11,245	**15,717**	9,257
Options / swaptions	**1,219**	698	**1,372**	684	**1,219**	698	**1,372**	684
Total interest rate-related contracts	**19,830**	11,195	**16,753**	9,673	**19,923**	11,946	**17,105**	9,944
Credit derivatives	**58**	87	**103**	130	**61**	91	**106**	134
Commodity derivatives	**165**	236	**88**	198	**166**	237	**88**	198
Other derivatives	**46**	75	**37**	57	**46**	75	**38**	58
Total trading derivatives	**35,545**	24,997	**34,318**	22,422	**35,007**	25,996	**37,945**	25,863

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

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Government bonds, notes and securities	**35,800**	28,623	**33,484**	26,043
Semi-government bonds, notes and securities	**6,458**	5,032	**3,816**	3,167
Corporate / financial institution bonds, notes and securities	**18,034**	18,152	**16,254**	16,333
Other bonds, notes, securities and other assets	**991**	1,424	**991**	1,422
Total trading securities	**61,283**	53,231	**54,545**	46,965

NOTE 10
DEBT INSTRUMENTS

Accounting policy

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

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Government bonds, notes and securities	**3,005**	3,576	**3,005**	3,576
Semi-government bonds, notes and securities	**21,689**	21,011	**21,689**	21,011
Corporate / financial institution bonds, notes and securities	**6,273**	7,696	**6,256**	7,615
Other bonds, notes and securities	**9,238**	9,773	**9,216**	9,755
Total debt instruments	**40,205**	42,056	**40,166**	41,957

NOTE 11
OTHER FINANCIAL ASSETS

Accounting policy

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

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

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Loans at fair value	**6,761**	9,845	**4,868**	7,259
Other financial assets at fair value	**349**	196	**1,361**	1,322
Total other financial assets	**7,110**	10,041	**6,229**	8,581

Loans

The maximum credit exposure of loans (excluding any undrawn facility limits) included in other financial assets is $6,761 million (2018: $9,845 million) for the Group and $4,868 million (2018: $7,259 million) for the Company. The cumulative change in fair value of the loans attributable to changes in credit risk amounted to a $65 million loss (2018: $82 million loss) for the Group and a $54 million loss (2018: $66 million loss) for the Company.

NOTE 12
LOANS AND ADVANCES

Accounting policy

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

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

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Loans and advances				
Housing loans	**343,915**	339,540	**302,764**	301,603
Other term lending[(1)]	**216,126**	200,541	**180,100**	166,639
Asset and lease financing	**12,763**	12,428	**12,230**	11,938
Overdrafts[(1)]	**5,820**	5,304	**3,265**	3,180
Credit card outstandings	**6,774**	7,294	**5,717**	6,232
Other lending	**6,703**	6,822	**6,242**	6,367
Total gross loans and advances	**592,101**	571,929	**510,318**	495,959
Deduct:				
Unearned income and deferred net fee income	**(452)**	(435)	**(510)**	(497)
Provision for credit impairment	**(3,900)**	(3,513)	**(3,281)**	(2,954)
Total net loans and advances	**587,749**	567,981	**506,527**	492,508

(1) Comparative information has been restated to align to the presentation in the current period to reflect revised product classifications.

NOTE 13
DEPOSITS AND OTHER BORROWINGS

Accounting policy

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

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Term deposits	**160,328**	162,218	**127,997**	132,176
On-demand and short-term deposits	**210,294**	194,795	**190,284**	176,597
Certificates of deposit	**39,620**	42,316	**39,620**	42,316
Deposits not bearing interest	**53,672**	50,767	**47,861**	45,474
Commercial paper and other borrowings	**26,809**	25,317	**25,902**	24,322
Securities sold under agreements to repurchase	**31,362**	27,732	**31,362**	27,731
Total deposits and other borrowings	**522,085**	503,145	**463,026**	448,616

NOTE 14
BONDS, NOTES AND SUBORDINATED DEBT

Accounting policy

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

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Bonds, notes and subordinated debt				
Medium-term notes	**104,126**	106,428	**104,147**	106,448
Securitisation notes	**4,283**	3,660	**-**	-
Covered bonds	**23,999**	22,703	**23,110**	22,731
Subordinated medium-term notes	**10,342**	6,931	**10,342**	6,931
Other subordinated notes	**508**	500	**-**	-
Total bonds, notes and subordinated debt[1]	**143,258**	140,222	**137,599**	136,110
Issued bonds, notes and subordinated debt by currency				
AUD	**43,380**	41,094	**38,966**	37,377
USD	**41,914**	42,856	**41,813**	42,989
EUR	**36,359**	32,872	**35,787**	32,833
GBP	**6,708**	9,586	**6,680**	9,604
Other	**14,897**	13,814	**14,353**	13,307
Total bonds, notes and subordinated debt[1]	**143,258**	140,222	**137,599**	136,110

(1) The balances include net discounts / premium adjustments.

Subordinated medium-term notes

Currency	Notional amount[1]	Maturity / First optional call date	Group 2019	Group 2018	Company 2019	Company 2018
	m		$m	$m	$m	$m
EUR	750[2]	Fixed due 2019	**1,215**	1,215	**1,215**	1,215
EUR	1,000	Fixed due 2020	**1,637**	1,662	**1,637**	1,662
AUD	1,100	Floating due 2020	**1,100**	1,100	**1,100**	1,100
HKD	1,137	Fixed due 2021	**213**	194	**213**	194
JPY	10,000	Fixed due 2021	**138**	122	**138**	122
AUD	150	Fixed due 2021	**152**	148	**152**	148
AUD	650	Floating due 2021	**650**	650	**650**	650
JPY	10,000	Fixed due 2021	**138**	122	**138**	122
SGD	450	Fixed due 2023	**493**	451	**493**	451
AUD	943	Floating due 2023	**938**	936	**938**	936
AUD	1,000	Floating due 2024	**1,000**	-	**1,000**	-
AUD	275	Fixed due 2027	**309**	277	**309**	277
AUD	20	Fixed due 2027	**30**	27	**30**	27
AUD	20	Fixed due 2028	**30**	27	**30**	27
USD	1,500	Fixed due 2029	**2,299**	-	**2,299**	-
Total			**10,342**	6,931	**10,342**	6,931

(1) Subordinated medium-term notes qualify as Tier 2 capital, in some cases subject to transitional Basel III treatment.
(2) On 13 September 2019, NAB exercised its option to redeem the EUR750 million medium-term notes. The notes were repaid at par on 12 November 2019.

NOTE 14 BONDS, NOTES AND SUBORDINATED DEBT (CONTINUED)

Other subordinated notes

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

NOTE 15
OTHER DEBT ISSUES

Accounting policy

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

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Perpetual floating rate notes	**77**	106	**77**	106
Convertible preference shares and convertible notes	**6,405**	6,052	**6,405**	6,052
Total other debt issues	**6,482**	6,158	**6,482**	6,158

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

	Perpetual floating rate notes	Convertible preference shares	Convertible notes
Issued amount	USD250 million	NAB CPS - $1.51 billion NAB CPS II - $1.72 billion	NAB Capital Notes - $1.34 billion NAB Capital Notes 2 - $1.50 billion NAB Capital Notes 3 - $1.87 billion
Issued date	9 October 1986	NAB CPS - 20 March 2013 NAB CPS II - 17 December 2013	NAB Capital Notes - 23 March 2015 NAB Capital Notes 2 - 7 July 2016 NAB Capital Notes 3 - 20 March 2019
Interest payment frequency	Semi-annually in arrears	Quarterly in arrears	Quarterly in arrears
Interest rate	0.15% per annum above the 6 month USD LIBOR	NAB CPS - 3.20% per annum above the 3 month BBSW NAB CPS II - 3.25% per annum above the 3 month BBSW	NAB Capital Notes - 3.50% per annum above the 3 month BBSW NAB Capital Notes 2 - 4.95% per annum above the 3 month BBSW NAB Capital Notes 3 - 4.00% per annum above the 3 month BBSW
Maturity / conversion	No final maturity	NAB CPS converted / redeemed on 20 March 2019 Mandatory conversion: NAB CPS II - 19 December 2022 Issuer conversion option: NAB CPS II - 17 December 2020	Mandatory conversion: NAB Capital Notes - 23 March 2022 NAB Capital Notes 2 - 8 July 2024 NAB Capital Notes 3 - 19 June 2028 Issuer conversion option: NAB Capital Notes - 23 March 2020 NAB Capital Notes 2 - 7 July 2022 NAB Capital Notes 3 - 17 June 2026
Outstanding amount	USD52.22 million	NAB CPS II - $1.72 billion	NAB Capital Notes - $1.34 billion NAB Capital Notes 2 - $1.50 billion NAB Capital Notes 3 - $1.87 billion
Capital treatment	Tier 2 capital, subject to transitional Basel III arrangements	Additional Tier 1 capital	Additional Tier 1 capital

NOTE 16
OTHER FINANCIAL LIABILITIES

Accounting policy

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

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Other financial liabilities at fair value				
Bonds, notes and subordinated debt	**25,998**	23,580	**6,414**	5,485
Deposits and other borrowings				
On-demand and short-term deposits	**263**	245	**-**	-
Certificates of deposit	**1,251**	1,642	**-**	-
Term deposits	**55**	949	**-**	-
Commercial paper and other borrowings	**3,296**	1,709	**-**	-
Securities sold short	**2,204**	2,027	**2,119**	1,862
Other financial liabilities	**216**	285	**17**	34
Total other financial liabilities	**33,283**	30,437	**8,550**	7,381

The change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a gain for the 2019 financial year of $167 million (2018: $66 million gain) for the Group and a gain of $149 million (2018: $10 million gain) for the Company. The cumulative change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a gain of $35 million (2018: $132 million loss) for the Group and a gain of $66 million (2018: $83 million loss) for the Company. The contractual amount to be paid at the maturity of the bonds, notes and subordinated debt is $25,078 million (2018: $23,555 million) for the Group and $5,991 million (2018: $5,452 million) for the Company.

NOTE 17
PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST

Accounting policy

The Group applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:
- debt instruments measured at amortised cost and fair value through other comprehensive income
- loan commitments
- financial guarantee contracts.

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

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

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

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

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

Credit quality of financial assets

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

Inputs, assumptions and techniques used for estimating impairment

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

Assessment of significant increase in credit risk
- When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information, including expert credit risk assessment, forward looking information and analysis based on the Group's historical experience.

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

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

Calculation of expected credit losses

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

Incorporation of forward looking information

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

Key judgements and estimates

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

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Credit impairment charge				
New and increased provisions (net of collective provision releases)	**1,154**	1,057	**987**	903
Write-backs of specific provisions	**(170)**	(193)	**(134)**	(144)
Recoveries of specific provisions	**(57)**	(73)	**(42)**	(52)
Total charge to the income statement	**927**	791	**811**	707

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

	Stage 1	Stage 2	Stage 3		
Group	12-mth ECL Collective provision $m	Lifetime ECL not credit impaired Collective provision $m	Lifetime ECL credit impaired Collective provision $m	Lifetime ECL credit impaired Specific provision $m	Total $m
Balance at 1 October 2017	313	1,819	403	689	3,224
Changes due to financial assets recognised in the opening balance that have					
Transferred to 12-months ECL - collective provision	296	(286)	(10)	-	-
Transferred to Lifetime ECL - collective provision	(58)	147	(89)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(50)	52	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(2)	(34)	(114)	150	-
New and increased provisions (net of collective provision 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
Changes due to financial assets recognised in the opening balance that have					
Transferred to 12-months ECL - collective provision	**358**	**(348)**	**(10)**	**-**	**-**
Transferred to Lifetime ECL - collective provision	**(48)**	**104**	**(56)**	**-**	**-**
Transfer to Lifetime ECL credit impaired - collective provision	**(2)**	**(65)**	**67**	**-**	**-**
Transfer to Lifetime ECL credit impaired - specific provision	**(2)**	**(49)**	**(106)**	**157**	**-**
New and increased provisions (net of collective provision releases)	**(264)**	**456**	**236**	**726**	**1,154**
Write-backs of specific provisions	**-**	**-**	**-**	**(170)**	**(170)**
Write-offs from specific provisions	**-**	**-**	**-**	**(600)**	**(600)**
Foreign currency translation and other adjustments	**2**	**4**	**1**	**(4)**	**3**
Balance at 30 September 2019	**368**	**2,227**	**523**	**782**	**3,900**

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

Provision for credit impairment reflects expected credit losses (ECL) measured using the three-stage approach. The following explains how significant changes in the gross carrying amount of loans and advances during the 2019 financial year have contributed to the changes in the provision for credit impairment for the Group under the expected credit loss model.

Overall, the total provision for credit impairment increased by $387 million compared to the balance at 30 September 2018.

Specific provisions increased by $109 million compared to the balance at 30 September 2018, due to new and increased specific provisions raised for the Business lending portfolios in Australia and New Zealand, combined with a low level of write-off activity.

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

Collective provisions increased by $278 million compared to the balance at 30 September 2018, comprised of:

Collective provision 12-months ECL (Stage 1) – increased by $44 million as a result of:

- $146 billion of loans and advances that were newly originated or migrated into Stage 1 from Stage 2 or Stage 3 due to credit quality improvement.
- Partially offset by $134 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period or migrated from Stage 1 to Stage 2 or Stage 3 due to deterioration in credit quality.

Collective provision Lifetime ECL – not credit impaired (Stage 2) – increased by $102 million as a result of:

- $33 billion of loans and advances migrating into Stage 2 as a result of loans and advances transferred from Stage 1 or Stage 3.
- Net increase in forward looking adjustments (FLAs) raised for targeted sectors.
- Partially offset by $52 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period, migrated to Stage 1 as a result of improved credit quality or into Stage 3 due to deterioration in credit quality.

Collective provision Lifetime ECL – credit impaired (Stage 3) – increased by $132 million as a result of:

- $5 billion of loans and advances that experienced movement in underlying account balances during the period or were transferred into Stage 3 from Stage 1 and Stage 2 due to credit quality deterioration.
- Partially offset by $3 billion of loans and advances that were repaid or migrated to Stage 1 or Stage 2 due to credit quality improvement or migrated to individually credit assessed with specific provisions raised.

	Stage 1	Stage 2	Stage 3		
Company	**12-mth ECL Collective provision $m**	**Lifetime ECL not credit impaired Collective provision $m**	**Lifetime ECL credit impaired Collective provision $m**	**Lifetime ECL credit impaired Specific provision $m**	**Total $m**
Balance at 1 October 2017	246	1,533	334	582	2,695
Changes due to financial assets recognised in the opening balance that have					
Transferred to 12-months ECL - collective provision	220	(213)	(7)	-	-
Transferred to Lifetime ECL - collective provision	(46)	113	(67)	-	-
Transferred to Lifetime ECL credit impaired - collective provision	(2)	(44)	46	-	-
Transferred to Lifetime ECL credit impaired - specific provision	(1)	(30)	(99)	130	-
New and increased provisions (net of collective provision releases)	(159)	425	135	502	903
Write-backs of specific provisions	-	-	-	(144)	(144)
Write-offs from specific provisions	-	-	-	(500)	(500)
Foreign currency translation and other adjustments	2	1	-	(3)	-
Balance at 30 September 2018	260	1,785	342	567	2,954
Changes due to financial assets recognised in the opening balance that have					
Transferred to 12-months ECL - collective provision	**282**	**(275)**	**(7)**	**-**	**-**
Transferred to Lifetime ECL - collective provision	**(39)**	**88**	**(49)**	**-**	**-**
Transferred to Lifetime ECL credit impaired - collective provision	**(2)**	**(60)**	**62**	**-**	**-**
Transferred to Lifetime ECL credit impaired - specific provision	**(2)**	**(35)**	**(96)**	**133**	**-**
New and increased provisions (net of collective provision releases)	**(201)**	**379**	**222**	**587**	**987**
Write-backs of specific provisions	**-**	**-**	**-**	**(134)**	**(134)**
Write-offs from specific provisions	**-**	**-**	**-**	**(525)**	**(525)**
Foreign currency translation and other adjustments	**2**	**1**	**-**	**(4)**	**(1)**
Balance at 30 September 2019	**300**	**1,883**	**474**	**624**	**3,281**

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

Provision for credit impairment reflects expected credit losses (ECL) measured using the three-stage approach. The following explains how significant changes in the gross carrying amount of loans and advances during the 2019 financial year have contributed to the changes in the provision for credit impairment for the Company under the expected credit loss model.

Overall, the total provision for credit impairment increased by $327 million compared to the balance at 30 September 2018.

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

Specific provisions increased by $57 million compared to the balance at 30 September 2018, due to new and increased specific provisions raised for the Business lending portfolio, combined with a low level of write-off activity.

Collective provisions increased by $270 million compared to the balance at 30 September 2018, comprised of:

Collective provision 12-months ECL (Stage 1) – increased by $40 million due to:
- $121 billion of loans and advances that were newly originated or migrated into Stage 1 from Stage 2 or Stage 3 due to credit quality improvement.
- Partially offset by $114 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period or migrated from Stage 1 to Stage 2 or Stage 3 due to deterioration in credit quality.

Collective provision Lifetime ECL – not credit impaired (Stage 2) – increased by $98 million due to:
- $29 billion of loans and advances migrating into Stage 2 as a result of loans and advances transferred from Stage 1 or Stage 3.
- Net increase in forward looking adjustments (FLAs) raised for targeted sectors.
- Partially offset by $42 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period, migrated to Stage 1 as a result of improved credit quality or into Stage 3 due to deterioration in credit quality.

Collective provision Lifetime ECL – credit impaired (Stage 3) – increased by $132 million due to:
- $4 billion of existing loans and advances that were transferred into Stage 3 from Stage 1 and stage 2 due to credit quality deterioration or experienced movement in underlying account balances during the period.
- Partially offset by $2 billion of loan and advances that were repaid, migrated to Stage 1 or Stage 2 due to credit quality improvement or migrated to individually credit assessed with specific provisions raised.

Write-offs still under enforcement activity

The contractual amount outstanding on loans and advances that were written off during the 2019 financial year, and are still subject to enforcement activity was $67 million (2018: $47 million) for the Group and $57 million (2018: $39 million) for the Company.

Information about total impaired assets

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

	Group		Company	
	2019	**2018**	**2019**	**2018**
Summary of total impaired assets	**$m**	**$m**	**$m**	**$m**
Gross impaired assets[(1)]	**1,972**	1,521	**1,355**	1,263
Specific provision for credit impairment	**(782)**	(675)	**(624)**	(567)
Net impaired assets[(2)]	**1,190**	846	**731**	696

(1) Gross impaired assets include $5 million (2018: $16 million) for the Group and $nil (2018: $nil) for the Company of gross impaired other financial assets at fair value, $22 million (2018: $10 million) of impaired off-balance sheet credit exposures for the Group and $20 million (2018: $7 million) for the Company, and $nil (2018: $2 million) for the Group and $nil (2018: $nil) for the Company, of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provision are held against these loans.

(2) The fair value of security in respect of impaired assets is $1,161 million (2018: $798 million) for the Group and $703 million (2018: $661 million) for the Company. Fair value amounts of security held in excess of the outstanding balance of individual impaired assets are not included in these amounts.

NOTE 18
HEDGE ACCOUNTING

Accounting policy

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

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

Hedging strategy

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

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

Not all exposures are automatically managed under the above strategy. Where a risk is within acceptable limits the Group may decide not to apply hedge accounting to that risk. Instead, the Group will manage its exposure under broader risk management processes.

Hedging instruments

The table below sets out hedging derivative assets and liabilities by the hedged risk and type of hedge relationship in which they are designated. The Group may designate separate derivatives to hedge different risk components of one hedged item. In such scenario the notional amount of hedging derivatives will, in sum, exceed the notional amount of the hedged item. In the case of cross-currency swaps the Group will often designate a single instrument to hedge both interest rate risk in a fair value hedge and currency risk in a cash flow hedge.

			Group				Company			
			2019		2018		2019		2018	
	Hedging instrument	Risk	Carrying amount $m	Notional $m	Carrying amount $m	Notional $m	Carrying amount $m	Notional $m	Carrying amount $m	Notional $m
Derivative assets										
Cash flow hedges	Interest rate swaps	Interest	**152**	**178,447**	83	190,263	**152**	**171,741**	82	184,112
Cash flow hedges	Cross-currency swaps	Currency	**3,530**	**98,374**	3,101	91,719	**3,153**	**93,649**	2,120	83,899
Cash flow hedges	Foreign exchange contracts	Currency	**163**	**24,405**	80	8,444	**163**	**24,405**	80	8,444
Fair value hedges	Interest rate swaps	Interest	**331**	**53,390**	134	17,255	**219**	**42,706**	64	14,097
Fair value and cash flow hedges	Cross-currency swaps	Interest and currency	**500**	**7,201**	438	6,629	**359**	**4,608**	353	4,052
Cash flow hedges	Futures	Interest	**13**	**19,900**	4	12,921	**13**	**18,428**	4	8,617
Derivative liabilities										
Cash flow hedges	Interest rate swaps	Interest	**156**	**162,951**	86	150,117	**156**	**157,837**	86	145,559
Cash flow hedges	Cross-currency swaps	Currency	**1,162**	**49,804**	881	32,184	**1,141**	**47,770**	834	30,961
Cash flow hedges	Foreign exchange contracts	Currency	**114**	**19,040**	30	5,479	**114**	**19,040**	30	5,479
Fair value hedges	Interest rate swaps	Interest	**113**	**45,646**	135	75,050	**112**	**28,948**	136	53,646
Fair value and cash flow hedges	Cross-currency swaps	Interest and currency	**2,450**	**17,918**	1,410	18,073	**1,374**	**11,290**	727	11,466
Cash flow hedges	Futures	Interest	**27**	**19,593**	5	15,597	**27**	**18,851**	5	11,705
Net investment hedges	Foreign exchange contracts	Currency	**15**	**150**	-	3	**15**	**150**	-	3
Financial liabilities										
Net investment hedges	Financial liabilities	Currency	**-**	**-**	1,846	1,846	**-**	**-**	-	-

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

The following table shows the maturity profile of hedging derivatives based on their notional amounts.

	2019				2018			
	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Group								
Interest rate swaps	**286,494**	**122,583**	**31,357**	**440,434**	287,095	116,959	28,631	432,685
Foreign exchange contracts	**43,595**	**-**	**-**	**43,595**	13,926	-	-	13,926
Futures	**32,068**	**7,425**	**-**	**39,493**	24,208	4,310	-	28,518
Cross-currency swaps - interest and currency	**6,834**	**13,343**	**4,942**	**25,119**	716	18,729	5,257	24,702
Cross-currency swaps - currency	**20,271**	**87,481**	**40,426**	**148,178**	16,498	69,713	37,692	123,903
Company								
Interest rate swaps	**277,513**	**94,560**	**29,159**	**401,232**	275,177	95,342	26,895	397,414
Foreign exchange contracts	**43,595**	**-**	**-**	**43,595**	13,926	-	-	13,926
Futures	**29,854**	**7,425**	**-**	**37,279**	16,012	4,310	-	20,322
Cross-currency swaps - interest and currency	**6,834**	**8,564**	**500**	**15,898**	716	14,249	553	15,518
Cross-currency swaps - currency	**20,271**	**81,463**	**39,685**	**141,419**	14,018	63,842	37,000	114,860

The average rate for major currencies of the final exchange of cross-currency swaps designated in hedge relationships are as follows:

	Group		Company	
	2019	2018	2019	2018
USD:AUD	**1.329**	1.296	**1.324**	1.311
EUR:AUD	**1.472**	1.460	**1.499**	1.491
GBP:AUD	**1.735**	1.752	**1.776**	1.795

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

Hedged items

The balance of the cash flow hedge reserve, which represents the effective portion of the movements in the hedging instrument, is presented in *Note 27 Reserves*. The movements in hedging instruments recognised in other comprehensive income are reported in the Group's statement of other comprehensive income. There are no amounts recognised in the cash flow hedge reserve for which hedge accounting is no longer applied (2018: $nil).

The following table shows the carrying amount of fair value hedged items in hedge relationships, and the accumulated amount of fair value hedge adjustments in these carrying amounts. The Group does not hedge its entire exposure to a class of financial instruments, therefore the carrying amounts below do not equal the total carrying amounts disclosed in other notes. The accumulated amount of fair value hedge adjustments included in the carrying amount of hedged items that have ceased to be adjusted for hedging gains and losses is $nil (2018: $nil) for the Group and $nil (2018: $nil) for the Company.

	Group				Company			
	2019		2018		2019		2018	
	Carrying amount $m	Fair value hedge adjustments $m	Carrying amount $m	Fair value hedge adjustments $m	Carrying amount $m	Fair value hedge adjustments $m	Carrying amount $m	Fair value hedge adjustments $m
Debt instruments[1]								
Semi-government bonds, notes and securities	**19,680**	**-**	18,795	-	**19,680**	**-**	18,795	-
Loans and advances								
Housing loans	**14,226**	**138**	11,825	41	**-**	**-**	-	-
Other term lending	**2,375**	**73**	1,902	(80)	**2,375**	**73**	1,902	(80)
Bonds, notes and subordinated debt								
Medium-term notes	**63,802**	**1,512**	58,945	(616)	**63,802**	**1,512**	58,945	(616)
Covered bonds[2]	**22,950**	**1,234**	21,423	382	**-**	**-**	-	-
Subordinated medium-term notes	**6,653**	**168**	4,245	63	**6,653**	**168**	4,245	63

(1) The carrying amount of debt instruments at fair value through other comprehensive income does not include a fair value hedge adjustment as the hedged asset is measured at fair value. The accounting for the hedge relationship results in a transfer from other comprehensive income to the income statement.
(2) The Company ceased to apply hedge accounting to covered bonds, which continue to be designated for hedge accounting purposes at the Group level.

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

Fair value hedge relationships result in the following changes in value used as the basis for recognising hedge ineffectiveness for the period:

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Gains / (losses) on hedging instruments	**1,717**	(540)	**802**	(477)
Gains / (losses) on hedged items attributable to the hedged risk	**(1,573)**	1,011	**(826)**	795
Hedge ineffectiveness recognised in the income statement	**144**	471	**(24)**	318

A loss of $41 million for the Group and gain of $28 million for the Company was recognised in the income statement related to hedge ineffectiveness from cash flow and net investment hedge relationships (2018: $88 million gain for the Group and $53 million gain for the Company related to hedge ineffectiveness from cash flow and net investment hedge relationships). Prior to adoption of the hedge accounting requirements in AASB 9 *Financial Instruments* hedge ineffectiveness from cross-currency basis was included in hedge ineffectiveness from fair value hedge relationships.

NOTE 19
FINANCIAL RISK MANAGEMENT

Overview of risk management framework

Effective risk management, including having a Risk Management Strategy and sound culture, is essential to achieving NAB's vision to be Australia's leading bank, trusted by customers for exceptional service. Risk exists in all of the Group's businesses and the environment in which it operates. The Risk Management Strategy describes the strategy for managing risk and the Group's Risk Management Framework. It is reviewed annually or more frequently if there is a material change to the Group's size, business mix and complexity, or risk profile. It is approved by the Board and submitted to APRA.

The Group's Risk Management Framework consists of systems, structures, policies, processes and people within the Group that identify, measure, evaluate, mitigate, monitor and report on all internal and external sources of material risks. The Board is ultimately responsible for the Risk Management Framework and oversees its operation by management. In addition, directors and senior executives are held personally accountable for the parts of the Group's operations they manage or control as mandated by the Banking Executive Accountability Regime (BEAR).

The Group applies a Three Lines of Defence operating model in relation to the management of risk. The overarching principle of the model is that risk management capability must be embedded within the business to be effective. The role of each line of defence is:

- **1st Line of Defence** – Businesses own risks and obligations, and the controls and mitigation strategies that help manage them.
- **2nd Line of Defence** – A functionally segregated Risk function develops risk management frameworks, defines risk boundaries, provides objective review and challenge regarding the effectiveness of risk management within the 1st line businesses and executes specific risk management activities where a functional segregation of duties and / or specific risk capability is required.
- **3rd Line of Defence** – An independent Internal Audit function, reporting to the Board, monitors the end-to-end effectiveness of risk management and compliance with the Risk Management Framework.

Further risk management information for the Group is disclosed in the *Corporate Governance* section of the Group's website at www.nab.com.au/about-us/corporate-governance.

Credit Risk

Credit risk overview, management and control responsibilities

Credit is any transaction that creates an actual or potential obligation for a counterparty or a customer to pay the Group. Credit risk is the potential that a counterparty or customer will fail to meet its obligations to the Group in accordance with agreed terms. Bank lending activities account for most of the Group's credit risk, however other sources of credit risk also exist throughout the activities of the Group. These activities include the banking book, the trading book, and other financial instruments and loans (including, but not limited to, acceptances, placements, inter-bank transactions, trade financing, foreign exchange transactions, swaps, bonds and options), as well as in the extension of commitments and guarantees and the settlement of transactions.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to existing or potential counterparties or customers, groups of related counterparties or groups of related customers, and to geographical and industry segments. Such risks are monitored on an ongoing basis and are subject to annual or more frequent review.

In general, the Group does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on the balance sheet.

Exposure to credit risk is managed through regular analysis of the ability of existing or potential counterparties, customers, groups of related counterparties or groups of related customers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if any counterparty failed to meet its obligations in accordance with agreed terms, all amounts with a counterparty are terminated and settled on a net basis.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Environmental, Social and Governance (ESG) risks

The Group is exposed to ESG and other emerging risks. The following items are examples of how these risks may impact the Group:

- Increases in the frequency and severity of climatic events could impact customers' ability to service their loans or the value of the collateral we hold to secure the loans.
- Action taken by governments, regulators and society more generally, to transition to a low carbon economy, could impact the ability of some customers to generate long term returns in a sustainable way or lead to certain assets being stranded in the future.
- Failure to comply with environmental and social legislation (emerging and current) may impact customers' ability to generate sustainable returns and service their loans.
- If in future, customers don't hold appropriate levels of insurance for physical assets against certain risks, this may impact the value the Group can recover in the event of certain natural disasters.

The Group considers these risks as part of the credit risk assessment and due diligence process before a customer is granted credit and for new product development. The Group also manages its total credit portfolio within established risk appetite and limits, particularly for specific industries or regions that are more exposed to these types of risks. As at 30 September 2019 the Group does not consider there to be a material risk of loss arising from ESG risks.

Maximum exposure to credit risk

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees are called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of committed facilities.

The table below shows the Group's maximum exposure to credit risk on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements.

		Group		Company	
		2019	2018	2019	2018
	Footnote	$m	$m	$m	$m
Financial assets					
Cash and liquid assets	(a)	**54,454**	49,269	**53,961**	48,947
Due from other banks	(b)	**32,130**	30,568	**29,049**	28,293
Trading instruments	(c)	**96,828**	78,228	**89,552**	72,961
Debt instruments	(d)	**40,205**	42,056	**40,166**	41,957
Other financial assets	(e)	**7,110**	10,041	**6,229**	8,581
Hedging derivatives	(c)	**4,689**	3,840	**4,059**	2,703
Loans and advances	(e)	**592,101**	571,929	**510,318**	495,959
Due from customers on acceptances	(e)	**2,490**	3,816	**2,490**	3,816
Due from controlled entities	(f)	**-**	-	**114,786**	100,483
Other assets	(f)	**9,057**	8,747	**7,101**	7,272
Total		**839,064**	798,494	**857,711**	810,972
Contingent liabilities	(g)	**23,811**	22,309	**22,893**	21,371
Credit-related commitments	(g)	**155,980**	156,631	**136,259**	136,602
Total		**179,791**	178,940	**159,152**	157,973
Total credit risk exposure		**1,018,855**	977,434	**1,016,863**	968,945

(a) The balance of **Cash and liquid assets** that is exposed to credit risk is comprised primarily of reverse repurchase agreements and securities borrowing agreements. These are collateralised with highly liquid securities and collateral is in excess of the borrowed or loaned amount.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) The balance of **Due from other banks** that is exposed to credit risk is comprised primarily of securities borrowing agreements and reverse repurchase agreements, as well as balances held with central supervisory banks and other interest earning assets. Securities borrowing agreements and reverse repurchase agreements are collateralised with highly liquid securities and the collateral is in excess of the borrowed or loaned amount.

Balances held with central supervisory banks and other interest earning assets that are due from other banks are managed based on the counterparty's creditworthiness. The Group will utilise master netting arrangements where possible to reduce its exposure to credit risk.

(c) At any one time, the maximum exposure to credit risk from **Trading instruments** and **Hedging derivatives** is limited to the current fair value of instruments that are favourable to the Group less collateral obtained. This credit risk is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

The Group uses documentation including International Swaps and Derivatives Association (ISDA) Master Agreements to document derivative activities. Under ISDA Master Agreements, if a default of a counterparty occurs, all contracts with the counterparty are terminated. They are then settled on a net basis at market levels current at the time of default. The Group also executes Credit Support Annexes in conjunction with ISDA Master Agreements.

Credit risk from over-the-counter trading and hedging derivatives is mitigated where possible through netting arrangements whereby derivative assets and liabilities with the same counterparty can be offset in certain circumstances. Derivatives that are cleared through a central clearing counterparty or an exchange have less credit risk than over-the-counter derivatives and are subject to relevant netting and collateral agreements.

Collateral is obtained against derivative assets, depending on the creditworthiness of the counterparty and / or the nature of the transaction.

(d) Debt instruments are generally comprised of Government, Semi-government, Corporate and Financial institution bonds, notes and securities. The amount of collateral held against such instruments will depend on the counterparty and the nature of the specific financial instrument.

The Group may utilise Credit Default Swaps (CDS), guarantees provided by central banks, other forms of credit enhancements or collateral in order to minimise the Group's exposure to credit risk.

(e) Other financial assets, Loans and advances and Due from customers on acceptances mainly comprise general lending and line of credit products. The distinction of classification reflects the type of lending product or is due to an accounting designation. These lending products will generally have a significant level of collateralisation depending on the nature of the product.

Other lending to non-retail customers may be provided on an unsecured basis or secured (partially or fully) by acceptable collateral defined in specific Group credit policy and business unit procedures. Collateral is generally comprised of business assets, inventories and in some cases personal assets of the borrower. The Group manages its exposure to these products by completing a credit evaluation to assess the customer's character, industry, business model and capacity to meet their commitments without distress. Collateral provides a secondary source of repayment for funds advanced in the event that a customer cannot meet their contractual repayment obligations. For amounts due from customers on acceptances the Group generally has recourse to guarantees, underlying inventories or other assets in the event of default which significantly mitigates the credit risk associated with accepting the customer's credit facility with a third party.

Housing loans are secured against residential property as collateral, and where applicable, Lenders Mortgage Insurance (LMI) is obtained by the Group (mostly in Australia) in order to cover any shortfall in outstanding loan principal and accrued interest. LMI is generally obtained for residential mortgages with a Loan to Valuation Ratio (LVR) in excess of 80%. The financial effect of these measures is that remaining credit risk on residential mortgage loans is minimal. Other retail lending products are mostly unsecured (e.g. credit card outstandings and other personal lending).

(f) The balance of **Other assets** which is exposed to credit risk includes investments relating to life insurance business, interest receivable accruals and other receivables. Interest receivable accruals are subject to the same collateral as the underlying borrowings. Other receivables will mostly be unsecured. There are typically no collateral or other credit enhancements obtained in respect of amounts **Due from controlled entities**.

(g) Contingent liabilities and credit-related commitments are comprised mainly of guarantees to customers, standby or documentary letters of credit, performance related contingencies and binding credit commitments. The Group will typically have recourse to specific assets pledged as collateral in the event of a default by a party for which the Group has guaranteed its obligations to a third party and therefore tend to carry the same credit risk as loans.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss of an amount equal to the total unused commitments. However, the likely amount of loss is generally less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit commitments because, in general, longer term commitments have a greater degree of credit risk than shorter term commitments.

Offsetting financial assets and liabilities

The tables below illustrate the amounts of financial instruments that have been offset on the balance sheet and also those amounts that are subject to enforceable master netting arrangements or similar agreements (i.e. offsetting agreements and any related financial collateral). The tables excludes financial instruments not subject to offset and that are only subject to collateral arrangements (e.g. loans and advances).

The 'Net amounts' presented in the tables are not intended to represent the Group's actual exposure to credit risk, as the Group will utilise a wide range of strategies to mitigate credit risk in addition to netting and collateral arrangements.

The amounts recognised on the balance sheet comprise of the sum of the 'Net amounts reported on balance sheet' and 'Amounts not subject to enforceable netting arrangements' included in the tables below.

	2019							
	Amount subject to enforceable netting arrangements							Amounts not subject to enforceable netting arrangements
	Effect of offsetting on balance sheet			Related amounts not offset				
Group	Gross amounts $m	Amount offset $m	Net amounts reported on balance sheet $m	Financial Instruments $m	Non-cash collateral $m	Cash collateral $m	Net Amount $m	$m
Derivative financial assets	100,366	69,497	30,869	18,916	613	5,562	5,778	9,365
Reverse repurchase agreements	77,162	12,353	64,809	-	64,809	-	-	-
Total assets	177,528	81,850	95,678	18,916	65,422	5,562	5,778	9,365
Derivative financial liabilities	101,473	69,497	31,976	18,916	352	9,819	2,889	6,379
Repurchase agreements	63,099	12,353	50,746	-	50,746	-	-	-
Total liabilities	164,572	81,850	82,722	18,916	51,098	9,819	2,889	6,379
Company								
Derivative financial assets	90,621	59,985	30,636	19,213	613	5,172	5,638	8,430
Reverse repurchase agreements	76,608	12,353	64,255	-	64,255	-	-	-
Total assets	167,229	72,338	94,891	19,213	64,868	5,172	5,638	8,430
Derivative financial liabilities	95,079	59,985	35,094	19,213	352	8,724	6,805	5,790
Repurchase agreements	62,985	12,353	50,632	-	50,632	-	-	-
Total liabilities	158,064	72,338	85,726	19,213	50,984	8,724	6,805	5,790

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

	2018							
	Amount subject to enforceable netting arrangements							Amounts not subject to enforceable netting arrangements
	Effect of offsetting on balance sheet			Related amounts not offset				
Group	Gross amounts $m	Amount offset $m	Net amounts reported on balance sheet $m	Financial Instruments $m	Non-cash collateral $m	Cash collateral $m	Net Amount $m	$m
Derivative financial assets	49,221	25,164	24,057	12,301	513	4,695	6,548	4,780
Reverse repurchase agreements	71,899	14,374	57,525	-	57,525	-	-	-
Total assets	121,120	39,538	81,582	12,301	58,038	4,695	6,548	4,780
Derivative financial liabilities	46,681	25,164	21,517	12,301	434	5,557	3,225	3,465
Repurchase agreements	58,984	14,374	44,610	-	44,610	-	-	-
Total liabilities	105,665	39,538	66,127	12,301	45,044	5,557	3,225	3,465
Company								
Derivative financial assets	46,089	21,717	24,372	12,297	513	4,389	7,173	4,427
Reverse repurchase agreements	71,353	14,374	56,979	-	56,979	-	-	-
Total assets	117,442	36,091	81,351	12,297	57,492	4,389	7,173	4,427
Derivative financial liabilities	46,040	21,717	24,323	12,297	434	5,415	6,177	3,255
Repurchase agreements	58,714	14,374	44,340	-	44,340	-	-	-
Total liabilities	104,754	36,091	68,663	12,297	44,774	5,415	6,177	3,255

Derivative financial assets and liabilities

Derivative amounts will only be offset on the balance sheet where the Group has a legally enforceable right of offset in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The Group has applied offsetting to certain centrally cleared derivatives and their associated collateral amounts which were deemed to satisfy the AASB 132 *Financial Instruments: Presentation* requirements.

Reverse repurchase and repurchase agreements

Reverse repurchase and repurchase agreements will typically be subject to Global Master Repurchase Agreements (GMRAs) or similar agreements whereby all outstanding transactions with the same counterparty can only be offset and closed out upon a default or insolvency event. In some instances the agreement provides the Group with a legally enforceable right of offset in all circumstances. In such a case and where there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously, the amounts with that counterparty will be offset on the balance sheet.

Where the Group has a right of offset on default or insolvency only, the related non-cash collateral amounts comprise highly liquid securities, either obtained or pledged, which can be realised in the event of a default or insolvency by one of the counterparties. The value of such securities obtained or pledged must at least equate to the value of the exposure to the counterparty, therefore the net exposure is considered to be nil.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk exposure by risk grade

The tables below show significant exposures to credit risk to which the expected credit loss model is applied, for recognised and unrecognised financial assets, based on the following risk grades:

- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A- (internal rating 1 to 5).
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB- (internal rating 6 to 11).
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ (internal rating 12 to 23).
- Default: broadly corresponds with Standard & Poor's rating of D (internal rating 98 and 99).

	Stage 1 12-months ECL Not credit impaired		Stage 2 Lifetime ECL Not credit impaired		Stage 3 Lifetime ECL Credit impaired		Total	
Group	**2019 $m**	**2018 $m**	**2019 $m**	**2018 $m**	**2019 $m**	**2018 $m**	**2019 $m**	**2018 $m**
Loans and advances[(1)]								
Senior investment grade	**168,661**	157,179	**749**	1,037	**-**	-	**169,410**	158,216
Investment grade	**321,412**	315,356	**9,933**	9,326	**-**	-	**331,345**	324,682
Sub-investment grade	**153,963**	158,002	**107,639**	102,301	**-**	-	**261,602**	260,303
Default	**-**	-	**2,054**	2,130	**7,481**	5,538	**9,535**	7,668
Total	**644,036**	630,537	**120,375**	114,794	**7,481**	5,538	**771,892**	750,869
Other financial assets[(2)]								
Senior investment grade	**39,690**	41,860	**-**	-	**-**	-	**39,690**	41,860
Investment grade	**994**	1,054	**108**	164	**-**	-	**1,102**	1,218
Sub-investment grade	**879**	1,367	**1,016**	1,401	**-**	-	**1,895**	2,768
Default	**-**	-	**-**	-	**8**	26	**8**	26
Total	**41,563**	44,281	**1,124**	1,565	**8**	26	**42,695**	45,872

(1) Loans and advances includes contingent liabilities and credit-related commitments.
(2) Other financial assets represent debt instruments and acceptances.

	Stage 1 12-months ECL Not credit impaired		Stage 2 Lifetime ECL Not credit impaired		Stage 3 Lifetime ECL Credit impaired		Total	
Company	**2019 $m**	**2018 $m**	**2019 $m**	**2018 $m**	**2019 $m**	**2018 $m**	**2019 $m**	**2018 $m**
Loans and advances[(1)]								
Senior investment grade	**141,655**	130,387	**702**	709	**-**	-	**142,357**	131,096
Investment grade	**291,589**	289,405	**7,061**	6,621	**-**	-	**298,650**	296,026
Sub-investment grade	**130,342**	135,404	**89,656**	84,411	**-**	-	**219,998**	219,815
Default	**-**	-	**2,052**	2,130	**6,413**	4,865	**8,465**	6,995
Total	**563,586**	555,196	**99,471**	93,871	**6,413**	4,865	**669,470**	653,932
Other financial assets[(2)]								
Senior investment grade	**39,651**	41,761	**-**	-	**-**	-	**39,651**	41,761
Investment grade	**994**	1,054	**108**	164	**-**	-	**1,102**	1,218
Sub-investment grade	**879**	1,367	**1,016**	1,401	**-**	-	**1,895**	2,768
Default	**-**	-	**-**	-	**8**	26	**8**	26
Total	**41,524**	44,182	**1,124**	1,565	**8**	26	**42,656**	45,773

(1) Loans and advances includes contingent liabilities and credit-related commitments.
(2) Other financial assets represent debt instruments and acceptances.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Concentration of exposure

Concentration of credit risk exists when a number of counterparties are engaged in similar activities, or operate in the same geographical areas or industry sections and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions.

The diversification and size of the Group is such that its lending is widely spread both geographically and in terms of the types of industries it serves.

Industry concentration of financial assets

	Net loans and advances(1)		Other financial assets(2)		Contingent liabilities and credit-related commitments		Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Group								
Government and public authorities	**1,962**	2,070	**23,977**	23,397	**1,179**	1,266	**27,118**	26,733
Agriculture, forestry, fishing and mining	**39,255**	36,789	**417**	547	**10,761**	11,232	**50,433**	48,568
Financial, investment and insurance	**30,797**	25,668	**39,420**	40,177	**34,599**	30,758	**104,816**	96,603
Real estate - construction	**2,915**	2,768	**1**	1	**2,062**	1,970	**4,978**	4,739
Manufacturing	**10,262**	10,283	**25**	43	**6,970**	7,013	**17,257**	17,339
Instalment loans to individuals and other personal lending (including credit cards)	**9,488**	10,301	**-**	-	**14,632**	15,369	**24,120**	25,670
Real estate - mortgage	**343,056**	338,872	**8,900**	9,113	**52,941**	54,724	**404,897**	402,709
Asset and lease financing	**12,635**	12,325	**-**	-	**225**	122	**12,860**	12,447
Commercial property services	**69,498**	67,049	**1,246**	2,171	**12,972**	14,203	**83,716**	83,423
Other commercial and industrial	**75,094**	72,136	**839**	991	**43,450**	42,283	**119,383**	115,410
Total	**594,962**	578,261	**74,825**	76,440	**179,791**	178,940	**849,578**	833,641
Company								
Government and public authorities	**1,799**	1,869	**23,977**	23,397	**513**	587	**26,289**	25,853
Agriculture, forestry, fishing and mining	**24,156**	22,435	**417**	547	**8,754**	9,049	**33,327**	32,031
Financial, investment and insurance	**29,074**	24,024	**36,323**	37,821	**33,899**	29,949	**99,296**	91,794
Real estate - construction	**1,727**	1,729	**1**	1	**1,805**	1,706	**3,533**	3,436
Manufacturing	**7,197**	7,157	**25**	43	**4,874**	5,193	**12,096**	12,393
Instalment loans to individuals and other personal lending (including credit cards)	**8,165**	8,935	**-**	-	**12,069**	12,774	**20,234**	21,709
Real estate - mortgage	**301,974**	300,994	**8,877**	9,094	**48,721**	50,452	**359,572**	360,540
Asset and lease financing	**12,121**	11,842	**-**	-	**225**	122	**12,346**	11,964
Commercial property services	**60,683**	58,494	**1,246**	2,171	**10,631**	12,019	**72,560**	72,684
Other commercial and industrial	**65,009**	62,785	**839**	992	**37,661**	36,122	**103,509**	99,899
Total	**511,905**	500,264	**71,705**	74,066	**159,152**	157,973	**742,762**	732,303

(1) Net loans and advances includes loans at fair value.
(2) Other financial assets represents debt instruments and acceptances.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Geographic concentration of financial assets

	Australia		New Zealand		Other International	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Group						
Cash and liquid assets	**5,868**	5,136	**193**	72	**48,393**	44,061
Due from other banks	**18,150**	11,301	**3,026**	2,461	**10,954**	16,806
Trading instruments	**76,558**	61,857	**11,243**	8,866	**9,027**	7,505
Debt instruments	**30,946**	30,665	**-**	-	**9,259**	11,391
Other financial assets	**5,095**	7,418	**2,015**	2,623	**-**	-
Hedging derivatives	**4,688**	3,823	**1**	1	**-**	16
Loans and advances	**490,388**	480,608	**79,401**	73,417	**17,960**	13,956
Due from customers on acceptances	**2,490**	3,816	**-**	-	**-**	-
Other assets	**8,189**	8,904	**1,697**	1,247	**1,142**	655
Total	**642,372**	613,528	**97,576**	88,687	**96,735**	94,390
Company						
Cash and liquid assets	**5,639**	4,922	**-**	-	**48,322**	44,025
Due from other banks	**18,142**	11,507	**-**	-	**10,907**	16,786
Trading instruments	**80,319**	65,389	**-**	-	**9,233**	7,572
Debt instruments	**30,946**	30,666	**-**	-	**9,220**	11,291
Other financial assets	**4,868**	7,259	**-**	-	**1,361**	1,322
Hedging derivatives	**4,059**	2,687	**-**	-	**-**	16
Loans and advances	**489,101**	479,031	**-**	-	**17,426**	13,477
Due from customers on acceptances	**2,490**	3,816	**-**	-	**-**	-
Other assets	**7,939**	7,840	**-**	-	**831**	360
Total	**643,503**	613,117	**-**	-	**97,300**	94,849

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk

Market risk overview and management

Market risk stems from the Group's trading and balance sheet management activities, the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

Market risk is represented by the below two categories:

Traded Market Risk	Non-Traded Market Risk
Traded Market Risk is the potential for gains or losses to arise from trading activities undertaken by the Group as a result of movements in market prices. The trading activities of the Group are principally carried out by Corporate and Institutional Banking. Trading activities represent dealings that encompass both active management of market risk and supporting client sales businesses. The types of market risk arising from these activities include interest rate, foreign exchange, commodity, equity price, credit spread and volatility risk.	The Group has exposure to non-traded market risk, primarily Interest Rate Risk in the Banking Book (IRRBB). IRRBB is the risk that the Group's earnings or economic value will be affected or reduced by changes in interest rates. The sources of IRRBB are as follows: • Repricing risk, arising from changes to the overall level of interest rates and inherent mismatches in the repricing term of banking book items. • Yield curve risk, arising from a change in the relative level of interest rates for different tenors and changes in the slope or shape of the yield curve. • Basis risk, arising from differences between the actual and expected interest margins on banking book items over the implied cost of funds of those items. • Optionality risk, arising from the existence of stand-alone or embedded options in banking book items, to the extent that the potential for those losses is not included in the above risks.

Measurement of market risk

The Group primarily manages and controls market risk using Value at Risk (VaR), which is a standard measure used throughout the industry. VaR gauges the Group's possible loss for the holding period based on historical market movements. VaR is measured at a 99% confidence interval. This means that there is a 99% chance that the loss will not exceed the VaR estimate during the holding period.

The Group employs other risk measures to supplement VaR, with appropriate limits to manage and control risks, and communicate the specific nature of market exposures to management, the Board Risk Committee and ultimately the Board. These supplementary measures include stress testing, loss, position and sensitivity limits.

Traded Market Risk

The VaR methodology involves multiple revaluations of the trading books using 550 days of historical pricing shifts. The pricing data is rolled daily.

The use of VaR methodology has limitations, which include:
- The historical data used to calculate VaR is not always an appropriate proxy for current market conditions. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than the VaR measure suggests.
- VaR methodology assumes that positions are held for one day and may underestimate losses on positions that cannot be hedged or reversed inside that timeframe.
- VaR is calculated on positions at the close of each trading day, and does not measure risk on intra-day positions.
- VaR does not describe the directional bias or size of the positions generating the risk.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Traded market risk

The table below shows the Group and Company VaR for the trading portfolio, including both physical and derivative positions:

	Group								Company							
	As at 30 September		Average value		Minimum value		Maximum value		As at 30 September		Average value		Minimum value		Maximum value	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Value at Risk at a 99% confidence level																
Foreign exchange risk	**0.9**	8.2	**4.5**	8.3	**0.2**	5.3	**11.8**	12.5	**0.8**	7.8	**4.4**	8.3	**0.5**	5.2	**11.7**	12.6
Interest rate risk	**7.7**	9.3	**8.0**	9.9	**5.8**	8.3	**12.8**	12.2	**7.6**	8.2	**7.3**	9.6	**5.0**	8.1	**12.2**	13.9
Volatility risk	**4.3**	5.1	**2.5**	5.3	**1.6**	3.7	**5.2**	7.1	**4.3**	5.1	**2.5**	5.3	**1.6**	3.7	**5.2**	7.1
Commodities risk	**0.5**	0.4	**0.6**	0.3	**0.2**	0.1	**2.1**	1.0	**0.5**	0.4	**0.6**	0.3	**0.2**	0.1	**2.1**	1.0
Credit risk	**1.8**	1.1	**1.4**	1.6	**0.8**	0.9	**2.0**	2.6	**1.7**	1.0	**1.3**	1.4	**0.7**	0.8	**1.8**	2.4
Inflation risk	**1.0**	1.6	**1.9**	2.0	**1.0**	0.6	**4.0**	2.3	**1.0**	1.6	**1.7**	2.0	**1.0**	0.5	**4.0**	2.4
Diversification benefit	**(6.9)**	(12.2)	**(8.9)**	(14.3)	**n/a**	n/a	**n/a**	n/a	**(6.6)**	(11.4)	**(8.3)**	(14.1)	**n/a**	n/a	**n/a**	n/a
Total Diversified VaR at 99% confidence interval	**9.3**	13.5	**10.0**	13.1	**6.3**	10.7	**16.8**	16.7	**9.3**	12.7	**9.5**	12.8	**5.5**	10.2	**15.9**	15.8
Other market risks	**2.7**	0.5	**1.8**	0.6	**0.3**	0.5	**4.2**	0.8	**2.7**	0.5	**1.8**	0.6	**0.3**	0.5	**4.2**	0.8
Total	**12.0**	14.0	**11.8**	13.7	**6.6**	11.2	**21.0**	17.5	**12.0**	13.2	**11.3**	13.4	**5.8**	10.7	**20.1**	16.6

Non-traded market risk - Balance sheet risk management

The principal objective of balance sheet risk management is to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Group’s banking book, while ensuring the Group maintains sufficient liquidity to meet its obligations as they fall due.

Non-traded market risk – Interest rate risk management

IRRBB is measured, monitored, and managed from both an internal management and regulatory perspective. The risk management framework incorporates both market valuation and earnings based approaches in accordance with the IRRBB Policy and Prudential Practice Guides. Risk measurement techniques include VaR, Earnings at Risk (EaR), interest rate risk stress testing, repricing analysis, cash flow analysis and scenario analysis. The IRRBB regulatory capital calculation incorporates repricing, yield curve, basis, and optionality risk, embedded gains / losses and any inter-risk and / or inter-currency diversification. The IRRBB risk and control framework achieved APRA accreditation for the internal model approach under Basel II, and is used to calculate the IRRBB regulatory capital requirement.

Key features of the internal interest rate risk management model include:
- historical simulation approach utilising instantaneous interest rate shocks
- static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing)
- VaR and EaR are measured on a consistent basis

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

- 99% confidence level
- three month holding period
- EaR utilises a 12 month forecast period
- at least six years of business day historical data (updated daily)
- investment term for capital is modelled with an established benchmark term of between one and five years
- investment term for core 'Non-Bearing Interest' (non-interest bearing assets and liabilities) is modelled on a behavioural basis with a term that is consistent with sound statistical analysis.

The following table shows the Group and the Company aggregate VaR and EaR for the IRRBB:

	Group								Company							
	As at 30 September		Average value		Minimum value		Maximum value		As at 30 September		Average value		Minimum value		Maximum value	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Value at Risk																
Australia	**261.0**	262.6	**268.5**	240.5	**226.3**	205.4	**303.1**	275.6	**261.0**	262.6	**268.5**	240.5	**226.3**	205.4	**303.1**	275.6
New Zealand	**21.4**	9.9	**14.8**	14.7	**6.3**	7.3	**25.8**	22.7	**-**	-	**-**	-	**-**	-	**-**	-
Other International	**19.7**	20.1	**17.4**	22.1	**14.4**	15.9	**21.6**	25.8	**19.7**	20.1	**17.4**	22.1	**14.4**	15.9	**21.6**	25.8
Earnings at Risk(1)																
Australia	**26.5**	45.4	**57.0**	32.5	**26.5**	18.5	**109.9**	46.3	**26.5**	45.4	**57.0**	32.5	**26.5**	18.5	**109.9**	46.3
New Zealand	**7.6**	7.1	**5.3**	7.4	**2.4**	3.8	**8.3**	11.9	**-**	-	**-**	-	**-**	-	**-**	-

(1) EaR amounts calculated under the IRRBB model include Australian Banking and other overseas banking subsidiary books, however excludes offshore branches. The Australia Region amount shows a centralised Australian Banking EaR reported within NAB.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk and funding mix

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of wholesale borrowings and loan capital as they mature and the payment of interest on borrowings.

These risks are governed by the Group's funding and liquidity risk appetite which is set by the Board. Group Treasury is responsible for the management of these risks. Objective review and challenge of the effectiveness of risk management is provided by Group Balance Sheet and Liquidity Risk with oversight by the Group Asset and Liability Committee. The Board has the ultimate responsibility to monitor and review the adequacy of the Group's funding and liquidity risk management framework and the Group's compliance with risk appetite.

Key principles adopted in the Group's approach to managing liquidity risk include:
- Monitoring the Group's liquidity position on a daily basis, using a combination of contractual and behavioural modelling of balance sheet and cash flow information.
- Maintaining a high quality liquid asset portfolio which supports intra-day operations and may be sold in times of market stress.
- Operating a prudent funding strategy which ensures appropriate diversification and limits maturity concentrations. The Group undertakes a conservative approach by imposing internal limits that are in addition to regulatory requirements.
- Maintaining a contingent funding plan designed to respond to the event of an accelerated outflow of funds from the Group.
- Requiring the Group to have the ability to meet a range of survival horizon scenarios, including name-specific and general liquidity stress scenarios.

The liquid asset portfolio held as part of these principles is well diversified by currency, tenor, counterparty and product type. The composition of the portfolio includes cash, government and highly rated investment grade paper. The market value of total on balance sheet liquid assets held at 30 September 2019 was $129,578 million (2018: $125,854 million). In addition, the Group holds internal RMBS as a source of contingent liquidity. As at 30 September 2019 the amount of unencumbered internal RMBS after haircuts held was $50,170 million (2018: $40,160 million).

Funding mix

The Group's funding is comprised of a mix of deposits, term wholesale funding, short-term wholesale funding and equity. The Group manages this within risk appetite settings to ensure suitable funding of its asset base and to enable it to respond to changing market conditions and regulatory requirements.

The Group maintains a strong focus on stable deposits both from a growth and quality perspective and continues to source deposits as a key funding source for funded assets.

The Group supplements deposit-raising via its term funding programmes, raising $26,231 million of term wholesale funding in the 2019 financial year (2018: $28,435 million) at a weighted average maturity of approximately 5.7 years to first call (2018: 5.2 years). The Group's issuance was in excess of term wholesale funding maturities in the 2019 financial year supporting management of future refinancing. In addition, during the 2019 financial year, the Group continued to access international and domestic short-term wholesale markets.

Contractual maturity of assets and liabilities

The following tables show an analysis of contractual maturities of assets and liabilities at the reporting date. The Group expects that certain assets and liabilities will be recovered or settled at maturities which are different to their contractual maturities, including deposits where the Group expects as part of normal banking operations that a large proportion of these balances will roll over.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Less than 12 months		Greater than 12 months		No specific maturity		Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Group								
Assets								
Cash and liquid assets	**55,457**	50,188	**-**	-	**-**	-	**55,457**	50,188
Due from other banks	**31,905**	30,414	**225**	154	**-**	-	**32,130**	30,568
Trading instruments	**9,936**	10,796	**50,364**	41,282	**36,528**	26,150	**96,828**	78,228
Debt instruments	**7,590**	11,648	**32,615**	30,408	**-**	-	**40,205**	42,056
Other financial assets	**3,813**	3,926	**3,069**	5,955	**228**	160	**7,110**	10,041
Loans and advances	**115,589**	102,350	**465,386**	458,337	**6,774**	7,294	**587,749**	567,981
Due from customers on acceptances	**2,490**	3,816	**-**	-	**-**	-	**2,490**	3,816
All other assets	**11,434**	10,363	**3,467**	3,010	**10,254**	10,259	**25,155**	23,632
Total assets	**238,214**	223,501	**555,126**	539,146	**53,784**	43,863	**847,124**	806,510
Liabilities								
Due to other banks	**34,273**	38,192	**-**	-	**-**	-	**34,273**	38,192
Trading instruments	**-**	-	**-**	-	**34,318**	22,422	**34,318**	22,422
Other financial liabilities	**9,328**	9,036	**23,847**	21,389	**108**	12	**33,283**	30,437
Deposits and other borrowings	**517,030**	492,897	**5,055**	10,248	**-**	-	**522,085**	503,145
Bonds, notes and subordinated debt	**29,275**	25,436	**113,983**	114,786	**-**	-	**143,258**	140,222
Other debt issues	**-**	-	**-**	-	**6,482**	6,158	**6,482**	6,158
All other liabilities	**11,006**	8,424	**2,894**	1,974	**3,921**	2,824	**17,821**	13,222
Total liabilities	**600,912**	573,985	**145,779**	148,397	**44,829**	31,416	**791,520**	753,798
Net (liabilities) / assets	**(362,698)**	(350,484)	**409,347**	390,749	**8,955**	12,447	**55,604**	52,712
Company								
Assets								
Cash and liquid assets	**54,811**	49,717	**-**	-	**-**	-	**54,811**	49,717
Due from other banks	**28,824**	28,139	**225**	154	**-**	-	**29,049**	28,293
Trading instruments	**6,842**	6,976	**46,720**	38,836	**35,990**	27,149	**89,552**	72,961
Debt instruments	**7,570**	11,564	**32,596**	30,393	**-**	-	**40,166**	41,957
Other financial assets	**2,258**	2,771	**3,971**	5,810	**-**	-	**6,229**	8,581
Loans and advances	**94,872**	83,841	**405,938**	402,435	**5,717**	6,232	**506,527**	492,508
Due from customers on acceptances	**2,490**	3,816	**-**	-	**-**	-	**2,490**	3,816
All other assets	**9,360**	8,394	**2,836**	2,169	**128,146**	115,538	**140,342**	126,101
Total assets	**207,027**	195,218	**492,286**	479,797	**169,853**	148,919	**869,166**	823,934
Liabilities								
Due to other banks	**32,552**	36,371	**-**	-	**-**	-	**32,552**	36,371
Trading instruments	**-**	-	**-**	-	**37,945**	25,863	**37,945**	25,863
Other financial liabilities	**577**	736	**7,865**	6,633	**108**	12	**8,550**	7,381
Deposits and other borrowings	**460,141**	441,139	**2,885**	7,477	**-**	-	**463,026**	448,616
Bonds, notes and subordinated debt	**29,274**	25,444	**108,325**	110,666	**-**	-	**137,599**	136,110
Other debt issues	**-**	-	**-**	-	**6,482**	6,158	**6,482**	6,158
All other liabilities	**9,718**	7,050	**1,797**	1,289	**119,608**	105,354	**131,123**	113,693
Total liabilities	**532,262**	510,740	**120,872**	126,065	**164,143**	137,387	**817,277**	774,192
Net (liabilities) / assets	**(325,235)**	(315,522)	**371,414**	353,732	**5,710**	11,532	**51,889**	49,742

NOTE 20
FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting policy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Group has immediate access. An adjustment for credit risk (CVA) is also incorporated into the fair value as appropriate as well as an adjustment for funding costs (FVA) related to uncollateralised over-the-counter derivatives. The fair value measurement technique of each class of instrument is described below.

Instrument	Fair value measurement technique
Loans and advances	The fair value of loans and advances that are priced based on a variable rate with no contractual repricing tenor are assumed to equate to the carrying value. The fair value of all other loans and advances are generally calculated using discounted cash flow models based on the maturity of the loans and advances. The discount rates applied are based on interest rates at reporting date for similar types of loans and advances, if the loans and advances were performing at reporting date.
Deposits and other borrowings	The fair value of deposits and other borrowings that are non-interest-bearing, at call or at a fixed rate that reprice within six months of reporting date, are assumed to equate to the carrying value. The fair value of other deposits and other borrowings is calculated using discounted cash flow models based on the deposit type and maturity.
Bonds, notes and subordinated debt and other debt issues	The fair values of bonds, notes and subordinated debt and other debt issues are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments and appropriate credit spreads, or in some instances are calculated based on market quoted prices when there is sufficient liquidity in the market.
Trading and hedging derivatives	The fair values of trading and hedging derivative assets and liabilities are obtained from quoted closing market prices at reporting date, discounted cash flow models or option pricing models as appropriate.
Trading instruments and debt instruments	The fair values of trading securities and debt instruments at fair value through other comprehensive income are based on quoted closing market prices at reporting date. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity.
Equity instruments	The fair value of equity instruments at fair value through other comprehensive income is estimated on the basis of the actual and forecasted financial position and results of the underlying assets or net assets taking into consideration their risk profile.
Other financial assets and liabilities	The fair values of other financial assets and liabilities are based on quoted closing market prices and data or valuation techniques, appropriate to the nature and type of the underlying instrument.

The carrying amounts of cash and liquid assets, due from and to other banks, due from customers on acceptances, other assets, other liabilities and amounts due from and to controlled entities, approximate their fair value as they are short-term in nature or are receivable or payable on demand. Guarantees, letters of credit, performance related contingencies and credit related commitments are generally not sold or traded and estimated fair values are not readily ascertainable. The fair value of these items are not calculated, as very few of the commitments extending beyond six months would commit the Group to a predetermined rate of interest, and the fees attaching to these commitments are the same as those currently charged for similar arrangements.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period in which the transfer occurs.

Key judgements and estimates

A significant portion of financial instruments are carried on the balance sheet at fair value.

Where no active market exists for a particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

Fair value hierarchy

The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

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

Transfers into and out of Level 3 occur due to changes in whether the inputs to the valuation techniques are observable. Where inputs are no longer observable the fair value measurement is transferred into Level 3. Conversely, a measurement is transferred out of Level 3 when inputs become observable.

The Group's exposure to fair value measurements based in full or in part on unobservable inputs is restricted to a small number of financial instruments, which comprise an insignificant component of the portfolios in which they belong. As such, a change in the assumption used to value the instruments as at 30 September 2019 attributable to reasonably possible alternatives would not have a material effect.

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments, carried at amortised cost

The financial assets and financial liabilities listed in the table below are carried at amortised cost. While this is the value at which the Group expects the assets to be realised and the liabilities to be settled, the table below includes their fair values as at 30 September:

	2019					2018				
	Carrying value $m	Level 1 $m	Level 2 $m	Level 3 $m	Fair Value $m	Carrying value $m	Level 1 $m	Level 2 $m	Level 3 $m	Fair Value $m
Group										
Financial assets										
Loans and advances[1]	**587,749**	**-**	**6,078**	**583,436**	**589,514**	567,981	-	5,577	562,879	568,456
Financial liabilities										
Deposits and other borrowings	**522,085**	**-**	**522,404**	**-**	**522,404**	503,145	-	503,428	-	503,428
Bonds, notes and subordinated debt	**143,258**	**7,855**	**137,950**	**-**	**145,805**	140,222	6,130	135,744	-	141,874
Other debt issues	**6,482**	**6,714**	**68**	**-**	**6,782**	6,158	6,157	106	-	6,263
Company										
Financial assets										
Loans and advances[1]	**506,527**	**-**	**3,324**	**504,944**	**508,268**	492,508	-	3,231	489,811	493,042
Financial liabilities										
Deposits and other borrowings	**463,026**	**-**	**463,256**	**-**	**463,256**	448,616	-	448,704	-	448,704
Bonds, notes and subordinated debt	**137,599**	**7,327**	**132,293**	**-**	**139,620**	136,110	5,609	132,084	-	137,693
Other debt issues	**6,482**	**6,714**	**68**	**-**	**6,782**	6,158	6,157	106	-	6,263

(1) Comparative information has been restated to align to the presentation in the current period to reflect revised levels in the fair value hierarchy.

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements recognised on the balance sheet

	2019				2018			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Group								
Financial assets								
Trading instruments	36,776	59,975	77	96,828	29,752	48,234	242	78,228
Debt instruments	3,206	36,520	479	40,205	4,012	37,593	451	42,056
Other financial assets	-	7,110	-	7,110	-	10,041	-	10,041
Hedging derivatives	-	4,689	-	4,689	-	3,840	-	3,840
Investments relating to life insurance business	-	101	-	101	-	98	-	98
Equity instruments(1)	-	-	91	91	-	224	84	308
Total financial assets measured at fair value	39,982	108,395	647	149,024	33,764	100,030	777	134,571
Financial liabilities								
Trading instruments	-	34,262	56	34,318	-	22,197	225	22,422
Other financial liabilities	1,249	32,034	-	33,283	697	29,740	-	30,437
Hedging derivatives	-	4,037	-	4,037	-	2,547	-	2,547
Total financial liabilities measured at fair value	1,249	70,333	56	71,638	697	54,484	225	55,406
Company								
Financial assets								
Trading instruments	34,466	55,009	77	89,552	27,175	45,544	242	72,961
Debt instruments	3,206	36,481	479	40,166	4,012	37,494	451	41,957
Other financial assets	-	6,229	-	6,229	-	8,581	-	8,581
Hedging derivatives	-	4,059	-	4,059	-	2,703	-	2,703
Equity instruments(1)	-	-	44	44	-	224	47	271
Total financial assets measured at fair value	37,672	101,778	600	140,050	31,187	94,546	740	126,473
Financial liabilities								
Trading instruments	-	37,889	56	37,945	-	25,638	225	25,863
Other financial liabilities	1,249	7,301	-	8,550	697	6,684	-	7,381
Hedging derivatives	-	2,939	-	2,939	-	1,818	-	1,818
Total financial liabilities measured at fair value	1,249	48,129	56	49,434	697	34,140	225	35,062

(1) Includes fair value through profit or loss instruments.

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

There were no material transfers between Level 1 and Level 2 during the year for the Group and the Company.

The table below summarises changes in fair value classified as Level 3.

	Assets						Liabilities	
	Trading instruments		Debt instruments		Equity instruments[1]		Trading instruments	
	2019	2018	2019	2018	2019	2018	2019	2018
Group	$m	$m	$m	$m	$m	$m	$m	$m
Balance at the beginning of year	**242**	94	**451**	427	**84**	48	**225**	76
Gains / (losses) on assets and (gains) / losses on liabilities recognised:								
In profit or (loss)	**(166)**	140	**-**	-	**-**	-	**(170)**	141
In other comprehensive income	**-**	-	**(1)**	(9)	**9**	(2)	**-**	-
Purchases and issues	**-**	-	**317**	79	**8**	25	**-**	-
Sales and settlements	**-**	-	**(119)**	(181)	**(16)**	(5)	**-**	-
Transfers into Level 3	**-**	-	**4**	201	**4**	18	**-**	-
Transfers out of Level 3	**-**	-	**(173)**	(65)	**-**	-	**-**	-
Foreign currency translation adjustments	**1**	8	**-**	(1)	**2**	-	**1**	8
Balance at end of year	**77**	242	**479**	451	**91**	84	**56**	225
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:								
In profit or (loss)	**(166)**	140	**-**	-	**-**	-	**(170)**	141
In other comprehensive income	**-**	-	**(1)**	(9)	**-**	(2)	**-**	-
Company								
Balance at the beginning of year	**242**	94	**451**	427	**47**	21	**225**	76
Gains / (losses) on assets and (gains) / losses on liabilities recognised:								
In profit or (loss)	**(166)**	140	**-**	-	**-**	-	**(170)**	141
In other comprehensive income	**-**	-	**(1)**	(9)	**-**	-	**-**	-
Purchases and issues	**-**	-	**317**	79	**(4)**	8	**-**	-
Sales and settlements	**-**	-	**(119)**	(181)	**-**	-	**-**	-
Transfers into Level 3	**-**	-	**4**	201	**3**	18	**-**	-
Transfers out of Level 3	**-**	-	**(173)**	(65)	**-**	-	**-**	-
Foreign currency translation adjustments	**1**	8	**-**	(1)	**(2)**	-	**1**	8
Balance at end of year	**77**	242	**479**	451	**44**	47	**56**	225
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:								
In profit or (loss)	**(166)**	140	**-**	-	**-**	-	**(170)**	141
In other comprehensive income	**-**	-	**(1)**	(9)	**-**	-	**-**	-

(1) Includes fair value through profit or loss instruments.

NOTE 21
FINANCIAL ASSET TRANSFERS

The Group and the Company enter into transactions by which they transfer financial assets to counterparties or to special purpose entities (SPEs). Financial assets that do not qualify for derecognition are typically associated with repurchase agreements, covered bonds and securitisation program agreements. The following table sets out the carrying amount of financial assets that did not qualify for derecognition and their associated liabilities. Where relevant, the table also sets out the net position of the fair value of financial assets where the counterparty to the associated liabilities has recourse only to the transferred assets.

	Group						Company					
	Repurchase agreements		Covered bonds		Securitisation		Repurchase agreements		Covered bonds		Securitisation	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Carrying amount of transferred assets	**12,565**	8,452	**30,465**	29,936	**4,245**	3,604	**12,429**	7,948	**26,120**	25,310	**77,976**	64,025
Carrying amount of associated liabilities	**12,565**	8,452	**26,880**	26,553	**4,283**	3,660	**12,429**	7,948	**22,816**	22,368	**77,976**	64,025
For those liabilities that have recourse only to the transferred assets												
Fair value of transferred assets	**n/a**	n/a	**n/a**	n/a	**4,258**	3,607	**n/a**	n/a	**n/a**	n/a	**78,244**	64,094
Fair value of associated liabilities	**n/a**	n/a	**n/a**	n/a	**4,359**	3,703	**n/a**	n/a	**n/a**	n/a	**79,121**	64,770
Net position	**n/a**	n/a	**n/a**	n/a	**(101)**	(96)	**n/a**	n/a	**n/a**	n/a	**(877)**	(676)

OTHER ASSETS AND LIABILITIES

NOTE 22
GOODWILL AND OTHER INTANGIBLE ASSETS

Accounting policy

Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the consideration paid over the fair value of the identifiable net assets acquired.

Software costs

External and internal costs that are incurred to acquire or develop software are capitalised and recognised as an intangible asset. Capitalised software costs and other intangible assets are amortised on a systematic basis once deployed, using the straight-line method over their expected useful lives which are between three and ten years. Certain software assets are deployed on a progressive basis, in which case the amortisation is recognised in a manner that is reflective of the expected benefits profile from the asset's use.

Impairment of intangible assets

Assets with an indefinite useful life, including goodwill, are not subject to amortisation and are tested on an annual basis for impairment, and additionally whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. For assets that do not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit (CGU) to which that asset belongs. Goodwill impairment is assessed at the group of CGUs that represents the lowest level within the Group at which goodwill is maintained for internal management purposes, which is at the segment level.

Recoverable amounts of CGUs

The recoverable amount of a CGU is determined using a value in use calculation. Assumptions for determining the recoverable amount of each CGU are based on past experience and expectations for the future. Cash flow projections are based on five year management approved forecasts which are then extrapolated using a constant growth rate for up to a further five years. In the final year a terminal growth rate is applied in perpetuity. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each CGU.

The discount rate reflects the market determined, risk-adjusted, post-tax discount rate and is adjusted for specific risks relating to the CGUs and the countries in which they operate. Terminal value growth rate represents the growth rate applied to extrapolate cash flows beyond the forecast period. These growth rates are based on forecast assumptions of the CGUs' long-term performance in their respective markets.

Key judgements and estimates

The determination of the fair value of assets and liabilities of acquired businesses requires the exercise of management judgement. Goodwill is allocated to disposed operations on the basis of the relative values of the disposed and retained operations and this also requires management judgement. Different fair values would result in changes to the goodwill balance and to the post-acquisition performance of the acquisition, or in the case of a disposal, the loss on sale.

The determination of appropriate cash flows, growth rates and discount rates for the calculation of value in use is subjective and requires a significant degree of judgement.

NOTE 22 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Goodwill	**2,864**	2,863	**-**	-
Internally generated software	**2,628**	2,821	**2,263**	2,388
Acquired software	**60**	74	**43**	57
Other acquired intangible assets[1]	**24**	29	**-**	-
Total goodwill and other intangible assets	**5,576**	5,787	**2,306**	2,445
At cost	**9,710**	8,908	**5,419**	4,777
Deduct: Accumulated amortisation / impairment losses	**(4,134)**	(3,121)	**(3,113)**	(2,332)
Total goodwill and other intangible assets	**5,576**	5,787	**2,306**	2,445

(1) Other acquired intangible assets include brand names and the value of business and contracts in force.

Reconciliation of movements in goodwill and internally generated software

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Goodwill				
Balance at beginning of year	**2,863**	2,862	**-**	-
Foreign currency translation adjustments	**1**	1	**-**	-
Balance at end of year	**2,864**	2,863	**-**	-
Internally generated software				
Balance at beginning of year	**2,821**	2,608	**2,388**	2,274
Additions from internal development	**871**	793	**709**	609
Disposals, impairments and write-offs	**(14)**	(171)	**(3)**	(164)
Amortisation[1]	**(1,058)**	(408)	**(833)**	(331)
Foreign currency translation adjustments	**8**	(1)	**2**	-
Balance at end of year	**2,628**	2,821	**2,263**	2,388

(1) The 2019 balance includes a reduction of software assets balance by $494 million (Company: $380 million) following a change to the application of the software capitalisation policy. Refer to Note 5 Operating expenses for further details.

Goodwill allocation to cash-generating units

The key assumptions used in determining the recoverable amount of CGUs, to which goodwill has been allocated, are as follows:

	Goodwill		Discount rate per annum	Terminal growth rate per annum
	2019	2018	2019	2019
	$m	$m	%	%
Reportable segments				
Business and Private Banking	**68**	68	**10.2**	**4.5**
Consumer Banking and Wealth	**2,538**	2,537	**10.2**	**4.5**
New Zealand Banking	**258**	258	**10.5**	**4.7**
Total goodwill	**2,864**	2,863	**n/a**	**n/a**

NOTE 23
OTHER ASSETS

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Cash collateral placed with third parties	**4,053**	4,196	**3,369**	3,885
Accrued interest receivable	**1,014**	1,182	**884**	1,038
Prepayments	**223**	222	**176**	190
Receivables	**586**	503	**194**	140
Other debt instruments at amortised cost	**366**	374	**-**	-
Equity instruments at fair value through other comprehensive income	**72**	290	**29**	253
Investment in associates - MLC Limited[1]	**526**	544	**542**	-
Securities sold not delivered	**2,815**	2,188	**2,570**	2,036
Other	**1,448**	1,224	**1,053**	645
Total other assets	**11,103**	10,723	**8,817**	8,187

(1) Refer to Note 31 Interest in subsidiaries on page 149 for further details.

NOTE 24
PROVISIONS

Accounting policy

Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are not discounted to the present value of their expected net future cash flows except where the time value of money is material.

Operational risk event losses

Provisions are recognised for non-lending losses which include losses arising from specific legal actions not directly related to amounts of principal outstanding for loans and advances, and losses arising from forgeries, fraud and the correction of operational issues.

Customer-related remediation

Provisions for customer-related remediation include provisions for potential refunds and other compensation to customers, including associated program costs.

Restructuring costs

A provision for restructuring costs is only recognised when the Group has a detailed formal restructuring plan and the restructuring has either commenced or has been publicly announced. The provision includes the cost of employee termination benefits and surplus lease space. Costs related to ongoing activities and future operating losses are not provided for.

Key judgements and estimates

Provisions other than loan impairment

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs, customer-related remediation and litigation. The measurement of some of these provisions involves the exercise of management judgement about the likely outcome of various events and the related estimated future cash flows. Payments that are expected to be incurred after more than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

In relation to customer-related remediation, determining the amount of the provision requires the exercise of significant judgement. This includes forming a view on a number of different assumptions, including the number of impacted customers,

NOTE 24 PROVISIONS (CONTINUED)

average refund per customer and the associated costs required to complete the remediation activities. The appropriateness of underlying assumptions is reviewed on a regular basis against actual experience and other available evidence, and adjustments are made to the provision where required.

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Employee entitlements	**899**	979	**728**	798
Operational risk event losses	**292**	238	**214**	139
Customer-related remediation	**2,092**	461	**2,068**	461
Restructuring provision	**45**	285	**27**	253
Other	**179**	233	**170**	228
Total provisions	**3,507**	2,196	**3,207**	1,879

Reconciliation of movements in provisions

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Operational risk event losses				
Balance at beginning of year	**238**	705	**139**	675
Provisions made	**314**	583	**261**	515
Payments out of provisions	**(208)**	(1,103)	**(157)**	(1,093)
Provisions no longer required and net foreign currency movements	**(52)**	53	**(29)**	42
Balance at end of year	**292**	238	**214**	139
Customer-related remediation				
Balance at beginning of year	**461**	80	**461**	80
Provision made (continuing operations)	**1,571**	360	**1,914**	435
Provisions made (discontinued operations)	**367**	75	**-**	-
Payments out of provisions	**(307)**	(54)	**(307)**	(54)
Balance at end of year	**2,092**	461	**2,068**	461
Restructuring provision				
Balance at beginning of year	**285**	-	**253**	-
Provisions made	**-**	568	**-**	516
Payments out of provisions	**(240)**	(283)	**(226)**	(263)
Balance at end of year	**45**	285	**27**	253

In 2018, the payments out of provisions for operational risk event losses mainly relates to CYBG discontinued operations.

NOTE 25
OTHER LIABILITIES

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Accrued interest payable	**2,217**	2,550	**1,881**	2,177
Payables and accrued expenses	**934**	1,057	**524**	668
Cash collateral received from third parties	**2,113**	1,398	**2,109**	1,396
Securities purchased not delivered	**3,246**	1,901	**2,930**	1,516
Other	**1,299**	1,470	**1,138**	1,351
Total other liabilities	**9,809**	8,376	**8,582**	7,108

CAPITAL MANAGEMENT

NOTE 26
CONTRIBUTED EQUITY

In accordance with the *Corporations Act 2001* (Cth), the Company does not have authorised capital and all ordinary shares have no par value. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are included within equity. Holders of ordinary shares are entitled to receive dividends as determined from time to time and are entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held at shareholders' meetings. In the event of a winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any residual proceeds of liquidation.

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Issued and paid-up ordinary share capital				
Ordinary shares, fully paid	**36,762**	33,062	**35,976**	32,276
Other contributed equity				
National Income Securities	**1,945**	1,945	**1,945**	1,945
Trust Preferred Securities	**-**	975	**-**	-
Total contributed equity	**38,707**	35,982	**37,921**	34,221

Reconciliation of movement in ordinary shares

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Balance at beginning of year	**33,062**	31,707	**32,276**	30,921
Shares issued:				
Dividend reinvestment plan	**1,803**	1,182	**1,803**	1,182
Dividend reinvestment plan underwritten allotments	**1,000**	-	**1,000**	-
Conversion of preference shares	**750**	-	**750**	-
Transfer from equity-based compensation reserve	**147**	173	**147**	173
Balance at end of year	**36,762**	33,062	**35,976**	32,276

NOTE 26 CONTRIBUTED EQUITY (CONTINUED)

The number of ordinary shares on issue for the last two years at 30 September was as follows:

	Company	
	2019 No. '000	2018 No. '000
Ordinary shares, fully paid		
Balance at beginning of year	**2,734,119**	2,685,469
Shares issued:		
Conversion of convertible preference shares	**30,185**	-
Dividend reinvestment plan	**73,265**	40,803
Dividend reinvestment plan underwritten allotments	**38,053**	-
Bonus share plan	**2,307**	1,984
Employee share plans	**4,834**	4,859
Performance rights	**250**	986
Paying up of partly paid shares	**6**	18
Total ordinary shares, fully paid	**2,883,019**	2,734,119
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	**25**	43
Paying up of partly paid shares	**(6)**	(18)
Total ordinary shares, partly paid to 25 cents	**19**	25
Total ordinary shares (including treasury shares)	**2,883,038**	2,734,144
Less: Treasury shares	**(7,524)**	(7,800)
Total ordinary shares (excluding treasury shares)	**2,875,514**	2,726,344

National Income Securities

On 29 June 1999, the Company issued 20,000,000 National Income Securities (NIS) at $100 each. These securities are stapled securities, comprising one fully paid note of $100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (NIS preference share). The amount unpaid on a NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the Australian 3 month bank bill rate plus 1.25% per annum, payable quarterly in arrears.

With the prior written consent of APRA, the Company may redeem each note for $100 (plus any accrued distributions) and buy back or cancel the NIS preference share stapled to the note for no consideration. NIS have no maturity date and are quoted on the ASX. NIS qualify as Additional Tier 1 capital, subject to transitional Basel III treatment.

Trust Preferred Securities

On 17 December 2018, the Group redeemed the GBP400 million Trust Preferred Securities issued by National Capital Trust I and guaranteed (on a limited basis) by NAB on 29 September 2003. The Trust Preferred Securities were redeemed for cash at their par value plus accrued distribution.

NOTE 27
RESERVES

Accounting policy

Foreign currency translation reserve

Exchange differences arising on translation of the Group's foreign operations, any offsetting gains or losses on hedging the net investment and any associated tax effect are reflected in the foreign currency translation reserve.

The results and financial position of Group entities that have a functional currency different from Australian dollars are translated into Australian dollars as follows:
- assets and liabilities are translated at the closing exchange rate at the balance sheet date
- income and expenses are translated at average exchange rates for the period
- all resulting exchange differences are recognised in the foreign currency translation reserve.

A cumulative credit balance in this reserve would not normally be regarded as being available for payment of dividends until such gains are realised and recognised in the income statement on sale or disposal of the foreign operation.

Asset revaluation reserve

The asset revaluation reserve is used to record revaluation adjustments on land and buildings. When an asset is sold or disposed of the related balance in the reserve is transferred directly to retained profits.

Cash flow hedge reserve and cost of hedging reserve

The cash flow hedge reserve comprises fair value gains or losses associated with the effective portion of designated cash flow hedging instruments, net of tax. The cost of hedging reserve records movements in forward points on a forward contract and cross-currency basis on cross-currency swaps that have been removed from hedge relationships and amortised over the life of the hedge. The cumulative movements will reduce to nil by maturity of the hedging instrument.

Equity-based compensation reserve

The equity-based compensation reserve comprises the fair value of shares and performance rights provided to employees.

Debt instruments at fair value through other comprehensive income reserve

The reserve includes all changes in the fair value of investments in debt instruments that are measured at fair value through other comprehensive income, other than impairment losses, foreign exchange gains and losses, interest income and net of any related hedge accounting adjustments. The cumulative amount recognised in the reserve is transferred to profit or loss when the related asset is derecognised.

Equity instruments at fair value through other comprehensive income reserve

The Group has made an irrevocable election to measure certain investments in equity instruments that are not held for trading purposes at fair value through other comprehensive income. Changes in the fair value of these investments are recognised in this reserve, while dividends are recognised in profit or loss. The cumulative amount recognised in the reserve is transferred directly to retained profits when the related asset is derecognised.

NOTE 27 RESERVES (CONTINUED)

Reserves

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Foreign currency translation reserve	**20**	(343)	**(214)**	(227)
Asset revaluation reserve	**80**	82	**-**	-
Cash flow hedge reserve	**201**	10	**235**	(12)
Cost of hedging reserve	**(235)**	(53)	**(147)**	(1)
Equity-based compensation reserve	**190**	243	**190**	243
Debt instruments at fair value through other comprehensive income reserve	**46**	22	**46**	22
Equity instruments at fair value through other comprehensive income reserve	**4**	85	**3**	83
Total reserves	**306**	46	**113**	108

Foreign currency translation reserve

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Balance at beginning of year	**(343)**	(338)	**(227)**	(241)
Transfer from retained profits	**14**	-	**-**	-
Redemption of Trust Preferred Securities	**287**	-	**-**	-
Currency adjustments on translation of foreign operations, net of hedging	**110**	56	**13**	14
Transfer to the income statement on disposal of foreign operations	**(38)**	(62)	**-**	-
Tax on foreign currency translation reserve	**(10)**	1	**-**	-
Balance at end of year	**20**	(343)	**(214)**	(227)

NOTE 28
DIVIDENDS AND DISTRIBUTIONS

	Amount per share cents	Total amount $m
2019		
Final dividend determined in respect of the year ended 30 September 2018	**99**	**2,707**
Interim dividend determined in respect of the year ended 30 September 2019	**83**	**2,333**
Deduct: Bonus shares in lieu of dividend	**n/a**	**(57)**
Dividends paid by the Company during the year ended 30 September 2019	**n/a**	**4,983**
Add: Dividends paid to non-controlling interest in controlled entities	**n/a**	**4**
Dividends paid by the Group (before dividend reinvestment plan)	**n/a**	**4,987**
2018		
Final dividend determined in respect of the year ended 30 September 2017	99	2,659
Interim dividend determined in respect of the year ended 30 September 2018	99	2,696
Deduct: Bonus shares in lieu of dividend	n/a	(56)
Dividends paid by the Company during the year ended 30 September 2018	n/a	5,299
Add: Dividends paid to non-controlling interest in controlled entities	n/a	4
Dividends paid by the Group (before dividend reinvestment plan)	n/a	5,303

Franked dividends paid during 2019 were fully franked at a tax rate of 30% (2018: 30%).

NOTE 28 DIVIDENDS AND DISTRIBUTIONS (CONTINUED)

Final dividend

On 7 November 2019, the directors determined the following dividend:

	Amount per share cents	Total amount $m	Franked amount per share %
Final dividend determined in respect of the year ended 30 September 2019	83	**2,393**	100

The final 2019 ordinary dividend is payable on 12 December 2019. The Group will offer a 1.5% discount on the Dividend Reinvestment Plan, with no participation limit. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2019 and will be recognised in subsequent financial reports.

NAB has also entered into an agreement to have the DRP on the final dividend partially underwritten up to an amount of $700 million over and above the expected participation in the DRP.

Australian franking credits

The franking credits available to the Group at 30 September 2019, after allowing for Australian tax payable in respect of the current reporting period's profit and the receipt of dividends recognised as a receivable at reporting date, are estimated to be $660 million (2018: $844 million). Franking credits to be utilised as a result of the payment of the proposed final dividend are $1,026 million (2018: $1,160 million). The Company's franking account fluctuates during the year as a result of the timing of income tax instalment and dividend payments. While the franking account balance fluctuates during the year, a surplus is only required as at 30 June each year for the purpose of complying with Australian income tax legislation. Franking is not guaranteed. The extent to which future dividends on ordinary shares and distributions on frankable hybrids will be franked will depend on a number of factors, including capital management activities and the level of profits generated by the Group that will be subject to tax in Australia.

New Zealand imputation credits

The Company is able to attach available New Zealand imputation credits to dividends paid. As a result, New Zealand imputation credits of NZ$0.15 per share will be attached to the final 2019 ordinary dividend payable by the Company. New Zealand imputation credits are only relevant for shareholders who are required to file New Zealand income tax returns.

Distributions on other equity instruments

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
National Income Securities	**62**	60	**62**	60
Trust Preferred Securities	**21**	40	**-**	-
Total distributions paid	**83**	100	**62**	60

Trust Preferred Securities issued by National Capital Trust I and guaranteed (on a limited basis) by NAB were redeemed on 17 December 2018, at their first optional redemption date. The Trust Preferred Securities were redeemed for cash at their par value plus accrued distribution.

UNRECOGNISED ITEMS

NOTE 29
CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

Accounting Policy

The Group discloses certain items as contingent liabilities, as they are either possible obligations whose existence will be confirmed only by uncertain future events, or they are present obligations where a transfer of economic resources is not probable or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless an outflow of economic resources is remote.

Financial assets pledged

Financial assets are pledged as collateral predominantly under repurchase agreements with other banks. The financial assets pledged by the Group are strictly for the purpose of providing collateral for the counterparty. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities, as well as requirements determined by exchanges where the Group acts as an intermediary. Repurchase agreements that do not qualify for derecognition are reported in *Note 21 Financial asset transfers*.

Contingent liabilities

Bank guarantees and letters of credit

The Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. The Group has four principal types of guarantees:
- bank guarantees
- standby letters of credit
- documentary letters of credit
- performance-related contingencies.

The Group considers all bank guarantees and letters of credit as "at call" for liquidity management purposes because it has no control over when the holder might call upon the instrument.

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Bank guarantees and letters of credit				
Bank guarantees	**4,515**	5,596	**4,483**	5,568
Standby letters of credit	**7,041**	5,257	**7,041**	5,257
Documentary letters of credit	**878**	1,002	**598**	669
Performance-related contingencies	**11,377**	10,454	**10,771**	9,877
Total bank guarantees and letters of credit	**23,811**	22,309	**22,893**	21,371

Clearing and settlement obligations

The Group is subject to a commitment in accordance with the rules governing clearing and settlement arrangements contained in the Australian Payments Network Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Consumer Electronic Clearing System and the High Value Clearing System which could result in a credit risk exposure and loss in the event of a failure to settle by a member institution. The Group also has a commitment in accordance with the Austraclear System Regulations and the Continuous Linked Settlement Bank Rules to participate in loss-sharing arrangements in the event that another financial institution fails to settle.

The Group is a member of various central clearing houses, most notably the London Clearing House (LCH) SwapClear and RepoClear platforms and the ASX Over-The-Counter Central Counterparty, which enables the Group to centrally clear derivative and repurchase agreement instruments respectively. As a member of these central clearing houses, the Group is required to make a default fund contribution. The exposure to risk associated with this commitment is reflected for capital adequacy

NOTE 29 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

purposes in the Group's Pillar 3 reporting. In the event of a default of another clearing member, the Group could be required to commit additional funds to the default fund contribution.

Credit-related commitments

Binding credit-related commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements. Nevertheless, credit-related commitments are considered "at call" for liquidity management purposes.

	Group		Company	
	2019 $m	2018 $m	2019 $m	2018 $m
Credit-related commitments				
Underwriting facilities	**2**	2	**2**	2
Binding credit commitments	**155,978**	156,629	**136,257**	136,600
Total credit-related commitments	**155,980**	156,631	**136,259**	136,602
Credit-related commitments by geographical location				
Australia	**120,756**	122,831	**120,178**	122,214
New Zealand	**19,143**	19,412	**-**	-
Other International	**16,081**	14,388	**16,081**	14,388
Total credit-related commitments	**155,980**	156,631	**136,259**	136,602

Parent entity guarantee and undertakings

The Company has provided the following guarantees and undertakings relating to entities in the Group. These guarantees and undertakings are not included in previous tables in the note:
- The Company will guarantee up to $29,636 million (2018: $27,709 million) of commercial paper issuances by National Australia Funding (Delaware) Inc. Commercial paper of $907 million (2018: $995 million) has been issued.
- The Company is responsible to its customers for any direct loss suffered as a result of National Nominees Limited failing to perform its obligations to the Company.
- The Company and National Wealth Management Services Limited (NWMSL) have been granted licences by the Safety, Rehabilitation and Compensation Commission (the Commission) to operate as self-insurers under the Commonwealth Government Comcare Scheme. Under these arrangements, the Company has agreed that, in the event it is proposed that NWMSL no longer continues as a wholly owned controlled entity of the Company, the Company will provide the Commission with a guarantee of the then current workers' compensation liabilities of NWMSL.
- The Company has issued letters of support in respect of certain subsidiaries and associates in the normal course of business. The letters recognise that the Company has a responsibility to ensure that those subsidiaries and associates continue to meet their obligations.

General

From time to time the Group is exposed to contingent risks and liabilities arising from the conduct of its business including:
- actual and potential disputes, claims and legal proceedings
- investigations into past conduct, including actual and potential regulatory breaches, carried out by regulatory authorities on either an industry-wide or Group-specific basis
- internal investigations and reviews into past conduct, including actual and potential regulatory breaches, carried out by the Group (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, reviews and litigation involving Australian financial institutions has increased significantly over the current and preceding financial year. Some of these investigations and reviews have resulted in customer remediation programs which are expected to continue beyond the 2019 financial year. Some of these investigations and reviews may result in enforcement proceedings.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission), which concluded with the issue of the Final Report (the Final Report) on 1 February 2019, has also brought greater focus to a range of culture and compliance matters, including responsible lending, compliance with the Banking Code of Practice and its

NOTE 29 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

predecessor codes and appropriate management of issues relating to deceased estates. The Final Report also contained a number of referrals of potential misconduct to the relevant regulatory authorities to consider whether further action should be taken.

There are contingent liabilities in respect of all the above 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.

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. 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 the Bank Bill Swap Reference Rate. The relevant ASIC proceedings against NAB were resolved in November 2017 pursuant to a court-approved settlement. The US class action was dismissed against NAB in November 2018 on jurisdictional grounds. However the plaintiffs were given leave to file a new complaint in April 2019. In May 2019 the defendants, including NAB, filed a motion to dismiss the class action complaint. The Court's determination of those motions is pending. The potential outcome and total costs associated with the US class action remain uncertain.

UK conduct issues – potential action and contingent asset

In May 2019, RGL Management Limited (a claims management company) commenced proceedings against CYBG and NAB on behalf of three customers of CYBG (the First Claim). The First Claim concerns tailored business loans (TBLs) which the customers entered into with CYBG between 2001 and 2012. NAB did not contract with the customers directly. However, NAB employees performed various functions in connection with the sale of the TBLs and calculation of break costs. The claimants allege they were misled about: (1) the cost of breaking fixed interest rate periods; and (2) the composition of fixed interest rates offered under the TBLs. The alleged misconduct is said to give rise to several causes of action, including negligent misstatement, misrepresentation and deceit. NAB and CYBG filed and served their defences to the First Claim on 30 July 2019.

RGL has filed, but not yet served, a further claim in similar terms to the First Claim (the Second Claim). The Second Claim includes a schedule of 146 further claimants. RGL has also been quoted in the press as saying that there are up to 2,000 further potential claimants on behalf of whom it has authority to bring similar claims. The potential outcome and total costs associated with the claims by RGL remain uncertain.

In prior periods the Group suffered losses in relation to certain UK customer-related remediation matters. NAB is in the process of making insurance claims in relation to these losses. Components of the insurance claims are treated by NAB as a contingent asset. The outcome of such claims remains uncertain.

Regulatory activity, compliance investigations and associated proceedings

Adviser service fees and fee disclosure statements (FDS)

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 a review of their financial circumstances together with a range of other services. In some instances, customers did not receive the agreed services or, in other cases, there may not be sufficient evidence that the agreed services were provided. NAB is in the process of identifying impacted customers.

NAB has confirmed with ASIC a review methodology for customers with financial advisers operating in the NAB Financial Planning and NAB Advice Partnerships businesses. NAB has made significant progress in confirming a review methodology for customers with financial advisers operating in the JBWere business. NAB is committed to progressing these reviews and, where appropriate, remediating those customers as soon as possible.

NAB Financial Planning has already remediated some customer cohorts. NAB Advice Partnerships and JBWere are identifying the cohorts of potentially impacted customers for review. Provisions for customer compensation have been taken based on current best estimates. However given the early stage of the process, these estimates are subject to considerable uncertainty.

Key variables contributing to uncertainty about customer remediation amounts include ‘no evidence’ rates and recovery rates from advisers. The total ongoing advice fees received within the period 2009-2018 are estimated to be approximately $1.3 billion for NAB Advice Partnerships and approximately $650 million for NAB Financial Planning. The potential outcome and total costs associated with the adviser service fees matter remain uncertain.

NOTE 29 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

On 12 October 2018, ASIC announced that it would be conducting an industry-wide review of compliance with requirements for Fee Disclosure Statements and Renewal Notices in the financial advice sector. NAB is assessing its compliance with the FDS regime. NAB has ceased charging ongoing fees for customers of NAB Financial Planning employed advisers resulting from concerns about the accuracy of the Fee Disclosure Statements. Aligned to NAB's adviser service fee remediation program, NAB will refund fees paid from 1 June 2018 for NAB Financial Planning customers up until they entered a new arrangement or the fees were switched off. The potential outcome and total costs associated with this matter remain uncertain.

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 and personnel, 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. NAB has reported a number of compliance breaches to relevant regulators and has responded to a number of requests from regulators requiring the production of documents and information. Identified issues include certain weaknesses with the implementation of 'Know Your Customer' requirements, other financial crime risks, 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 uplifting and 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.

Banking matters

A number of investigations into banking-related matters are being carried on across the Group, including matters where customers may not have been provided notice of increases to loan repayments within the timeframe required by the National Credit Code, and matters where customers were incorrectly charged certain periodical payment fees. The potential outcome and total costs associated with these matters 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 implementing a remediation program for CCI customers who are potentially impacted. Where customer compensation is able to be reliably estimated, provisions have been taken. There is also an ongoing ASIC investigation into the matter. The outcome and total costs associated with this matter remain 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 and/or misleading and deceptive conduct in contravention of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) in connection with the sale of a particular CCI product (being NAB Credit Card Cover).

On 13 June 2019 the Federal Court granted leave for the addition of a claim alleging that NAB and MLC Limited engaged in unconscionable conduct in contravention of the ASIC Act in connection with the sale of a second CCI product (being NAB Personal Loan Cover).

The trial is scheduled to commence on 2 December 2019, however NAB continues to engage in commercial negotiations which may result in a settlement being reached between the parties. The potential outcome and total costs associated with this matter 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 and Science 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

NOTE 29 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

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.

Life Events cover

In 2013, a new insurance feature was introduced for members in the Plum Superannuation Fund that permitted members to increase their Death and Total and Permanent Disability insurance cover amount if certain "Life Events" occur for them, without having to undergo a medical assessment. Following an internal investigation, it was determined that PFS Nominees Pty Ltd, the trustee of the Plum Superannuation Fund, had failed to disclose this feature to some superannuation fund members (it was disclosed to new members in product disclosure statements, however it was not disclosed to existing members at the time it was introduced). Existing members impacted by this issue have now been informed about the Life Events insurance feature.

NAB has developed a remediation methodology and is re-confirming the impacted members before implementing the remediation. The outcome and total costs associated with this matter remain uncertain, and will depend on whether impacted members actually had an eligible Life Event occur, and made a claim, within the period covered by the remediation.

NAB's introducer payments program

On 23 August 2019, ASIC commenced Federal Court proceedings against NAB in connection with the introducer payments program. ASIC alleges that NAB engaged in credit activities with unlicensed persons in contravention of the *National Consumer Credit Protection Act 2009 (NCCP)*. The potential outcome and total costs associated with these proceedings remain uncertain. The introducer payments program has been the subject of internal reviews, a remediation program and a Royal Commission case study. In March 2019, NAB announced it would end the introducer payments program with effect from 1 October 2019. 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 (MBIE) has undertaken a program of compliance audits of a number of New Zealand organisations, including BNZ, in respect of the *New Zealand Holidays Act 2003* (Holidays Act). Since 2017, BNZ has worked with MBIE to review its compliance with the Holidays Act, including in respect of annual and public holiday payments to certain employees, and is completing remediation, as agreed with MBIE. In addition, the legislative interpretation of the definition of "discretionary payments" under the Holidays Act is not yet certain and, once it has been definitively determined, any potential implications for BNZ will need to be considered.

Plan service fees (PSF)

The Group has finalised the payment of refunds to customers who were charged PSF, including refunds to customers who did not have a plan adviser attached to their superannuation account and customers who left an employer and were transferred to the personal division of the relevant corporate superannuation product.

On 6 September 2018, ASIC commenced Federal Court proceedings against two Group entities - NULIS Nominees (Australia) Limited (NULIS) and MLC Nominees Pty Ltd (MLCN) - in relation to PSF. ASIC is seeking declarations that a number of provisions of the *Australian Securities and Investments Commission 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 this matter remain uncertain.

Royal Commission

The Final Report states that the Commissioner will make two referrals to APRA of the conduct by NULIS and MLCN which may have amounted to misconduct. Both of these referrals relate to conduct of NULIS and MLCN which may have given rise to a potential conflict of interest namely:

- Grandfathered commissions: the Commissioner found that NULIS "may have breached its duty to act in the best interests of the affected members" in relation to the maintenance of grandfathered commissions at the time of the successor fund transfer on 1 July 2016.
- MySuper: the Commissioner found that NULIS might have contravened the 'best interests' covenant set out in section 52(2)(c) of the *Superannuation Industry (Supervision) Act 1993* (Cth) in relation to the speed with which it effected transfers of accrued default amounts to MySuper.

In addition, the Commissioner communicated with ASIC in relation to possible breaches of section 1041G of the *Corporations Act 2001* (Cth) arising from fees for no service conduct. The Commissioner informed ASIC that in his opinion, multiple entities may

NOTE 29 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

have breached section 1041G and invited ASIC to consider whether criminal or other legal proceedings should be instituted. The Final Report also identified other potential issues, including breach reporting under section 912D of the *Corporations Act 2001* (Cth). The potential outcome and total costs associated with any proceedings which may arise out of these matters 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. Where customer compensation is able to be reliably estimated, provisions have been taken. The final outcome and total costs associated with this work remain uncertain.

Contractual commitments

Financial Planning Subsidiaries

Some financial planning subsidiaries have agreements which allow authorised representatives to sell their client book to those subsidiaries in certain circumstances contingent upon a number of key conditions being met. The agreements provide for the sale at a multiple of ongoing revenue subject to a range of criteria. It is not currently possible to reliably estimate the financial impact of these agreements.

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.

NOTE 30
OPERATING LEASES

The Group leases various offices, stores and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. There are no contingent rents payable. The Group also leases data processing and other equipment under non-cancellable lease arrangements.

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are:

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Due within one year	**397**	389	**345**	334
Due after one year but no later than five years	**1,192**	1,162	**1,057**	1,033
Due after five years	**1,299**	1,447	**1,275**	1,420
Total non-cancellable operating lease commitments	**2,888**	2,998	**2,677**	2,787

OTHER DISCLOSURES

NOTE 31
INTEREST IN SUBSIDIARIES AND OTHER ENTITIES

Accounting policy

Investment in controlled entities

Controlled entities are all those entities (including structured entities) over which the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An assessment of control is performed on an ongoing basis. Entities are consolidated from the date on which control is transferred to the Group. Entities are deconsolidated from the date that control ceases. The effects of transactions between entities within the Group are eliminated in full upon consolidation. External interest in the equity and results of the entities that are controlled by the Group are shown as non-controlling interests in controlled entities in the equity section of the consolidated balance sheet.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over these policies. The Group's investments in associates are accounted for using the equity method.

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities generally have restricted activities and a narrow and well defined objective which is created through contractual arrangement. Depending on the Group's power over the relevant activities of the structured entities and its exposure to and ability to influence its own return, it may or may not consolidate the entity.

Unconsolidated structured entities refer to all structured entities that are not controlled by the Group. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions or for specific investment opportunities.

Interests in unconsolidated structured entities include, but are not limited to, debt and equity investments, guarantees, liquidity arrangements, commitments, fees from investment structures, and derivative instruments that expose the Group to the risks of the unconsolidated structured entities. Interests do not include plain vanilla derivatives (e.g. interest rate swaps and cross currency swaps) and positions where the Group:
- creates rather than absorbs variability of the unconsolidated structured entity
- provides administrative, trustee or other services as agent to third party managed structured entities.

Involvement is considered on a case by case basis, taking into account the nature of the structured entity's activity. This excludes involvements that exist only because of typical customer-supplier relationships.

(a) Investment in controlled entities

The following table presents the material controlled entities as at 30 September 2019 and 30 September 2018. Investment vehicles holding life policyholder assets are excluded from the list below.

Entity name	Ownership %	Incorporated / formed in
National Australia Bank Limited		Australia
National Equities Limited	100	Australia
National Australia Group (NZ) Limited	100	New Zealand
Bank of New Zealand	100	New Zealand
National Wealth Management Holdings Limited	100	Australia
MLC Investments Limited	100	Australia
NULIS Nominees (Australia) Limited	100	Australia

NOTE 31 INTEREST IN SUBSIDIARIES AND OTHER ENTITIES (CONTINUED)

Significant restrictions

Subsidiary companies that are subject to prudential regulation are required to maintain minimum capital and other regulatory requirements that may restrict the ability of these entities to make distributions of cash or other assets to the parent company. These restrictions are managed in accordance with the Group's normal risk management policies set out in *Note 19 Financial risk management* and capital adequacy requirements in *Note 35 Capital adequacy*.

(b) Investment in associates

The Group's investments in associates include a 20% interest in MLC Limited, a provider of life insurance products in Australia. Set out below is the summarised financial information of MLC Limited based on its financial information (and not the Group's 20% share of those amounts) and a reconciliation of that information to the equity-accounted carrying amount as at 30 September:

	2019 $m	2018 $m
Summarised income statement of MLC Limited		
Revenue	**2,030**	1,858
Net profit / (loss) for the period	**(61)**	89
Total comprehensive income for the period	**(61)**	89
Reconciliation to the Group's share of profit / (loss)		
MLC Limited's net profit / (loss) for the period	**(61)**	89
Prima facie share of profit / (loss) at 20%	**(12)**	18
Deduct amortisation of intangible assets recognised at acquisition, net of tax	**(8)**	(8)
Group's share of profit / (loss) for the period	**(20)**	10
Summarised balance sheet of MLC Limited		
Total assets	**6,223**	5,872
Total liabilities	**4,263**	3,836
Net assets	**1,960**	2,036
Reconciliation to the Group's investment in MLC Limited		
Prima facie share of net assets at 20%	**392**	407
Add intangible assets recognised at acquisition, net of deferred tax	**134**	137
Group's carrying amount of the investment in MLC Limited	**526**	544

The Group received dividends from MLC Limited during the 2019 financial year of $2.6 million (2018: $11.0 million).

Significant restrictions

Assets in a statutory fund of MLC Limited can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of that fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act 1995* (Cth) are met. This may impact MLC Limited's ability to transfer funds to the Group in the form of dividends. In addition, in certain circumstances the payment of dividends may require approval by APRA.

Transactions

As part of a long-term commercial arrangement with Nippon Life and MLC Limited, the Group refers certain bank customers to MLC Limited, makes available MLC Limited life insurance products on the approved product lists of the Group's owned and aligned advice distribution network, and offers MLC Limited life insurance products to the Group's superannuation customers.

Under a financial services agreement and certain linked arrangements, the Group provides MLC Limited with certain financial services on an arm's length basis, including:
- On an exclusive basis: custody, transactional banking facilities, fixed income, commodity and currency services.
- On a non-exclusive basis: investment portfolio management.

Under a transitional services agreement, the Group provides certain support services until such time as MLC Limited establishes its own standalone environment and capability. These services include financial and investment reporting, infrastructure services and major systems. In addition, the Group is obligated to support the data migration activities and development of the technology systems of MLC Limited. MLC Limited also uses the MLC brand under licence from the Group.

NOTE 31 INTEREST IN SUBSIDIARIES AND OTHER ENTITIES (CONTINUED)

(c) Consolidated structured entities

The Group has interests in the following types of consolidated structured entities:

Type	Details
Securitisation	The Group engages in securitisation activities for funding, liquidity and capital management purposes. The Group principally packages and sells residential mortgage loans as securities to investors through a series of securitisation vehicles. The Group is entitled to any residual income after all payments to investors and costs related to the program have been met. The note holders only have recourse to the pool of assets. The Group is considered to hold the majority of the residual risks and benefits of the vehicles. All relevant financial assets continue to be held on the Group balance sheet, and a liability is recognised for the proceeds of the funding transaction. The Group provides liquidity facilities to the securitisation vehicles. The facilities can only be drawn to manage the timing mismatch of cash inflows from securitised loans and cash outflows due to investors. The liquidity facility limit as at 30 September 2019 is $905 million. ASIC has granted relief to Titan NZ (MRP Bonds) Trust, a consolidated structured entity, under ASIC Instrument No 18-0620 from the requirement to synchronise its reporting period with that of the Company. The effect of this relief is immaterial to the financial statements.
Covered bonds	The Group is entitled to any residual income after all payments due to covered bonds investors and costs related to the program have been met. The covered bond holders have dual recourse to the Group and the covered pool assets.

(d) Unconsolidated structured entities

The Group has interests in the following types of unconsolidated structured entities:

Type	Details
Securitisation	The Group engages with third party (client) securitisation vehicles by providing warehouse facilities, liquidity support and derivatives. The Group invests in residential mortgage and asset-backed securities.
Other financing	The Group provides tailored lending to limited recourse single purpose vehicles which are established to facilitate asset financing for clients. The assets are pledged as collateral to the Group. The Group engages in raising finance for leasing assets such as aircraft, trains, shipping vessels and other infrastructure assets. The Group may act as a lender, arranger or derivative counterparty to these vehicles. Other financing transactions are generally senior, secured self-liquidating facilities in compliance with Group credit lending policies. Regular credit and financial reviews of the borrowers are conducted to ensure collateral is sufficient to support the Group's maximum exposures.
Investment funds	The Group has direct interests in unconsolidated investment funds. The Group's interests include holding units and receiving fees for services. The Group's interest in unconsolidated investment funds is immaterial.

The table below shows the carrying value and maximum exposure to loss of the Group's interests in unconsolidated structured entities.

	Group					
	Securitisations		Other financing		Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Loans and advances	**10,936**	8,105	**5,043**	5,773	**15,979**	13,878
Debt instruments	**9,253**	9,771	**-**	-	**9,253**	9,771
Total carrying value of assets in unconsolidated structured entities	**20,189**	17,876	**5,043**	5,773	**25,232**	23,649
Commitment / contingencies	**5,753**	5,584	**2,398**	2,174	**8,151**	7,758
Total maximum exposure to loss in unconsolidated structured entities	**25,942**	23,460	**7,441**	7,947	**33,383**	31,407

NOTE 31 INTEREST IN SUBSIDIARIES AND OTHER ENTITIES (CONTINUED)

The total assets of unconsolidated structured entities are not considered meaningful for the purpose of understanding the Group's financial risks associated with these entities and so have not been presented. Unless specified otherwise, the Group's maximum exposure to loss is the total of its on-balance sheet positions and its off-balance sheet arrangements, being loan commitments, financial guarantees, and liquidity support. Exposure to loss is managed as part of the enterprise Group-wide risk management framework. Refer to *Note 19 Financial risk management* for further details. Income earned from interests in unconsolidated structured entities primarily result from interest income, mark-to-market movements and fees and commissions.

The majority of the Group's exposures are senior investment grade, but in some limited cases, the Group may be required to absorb losses from unconsolidated structured entities before other parties because the Group's interests are subordinated to others in the ownership structure. The table below shows the credit quality of the Group's exposures in unconsolidated structured entities:

	Group					
	Securitisations		Other financing		Total	
	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
Senior investment grade	**20,007**	17,819	**1,559**	1,427	**21,566**	19,246
Investment grade	**179**	30	**3,133**	4,031	**3,312**	4,061
Sub-investment grade	**3**	27	**351**	315	**354**	342
Total[(1)]	**20,189**	17,876	**5,043**	5,773	**25,232**	23,649

(1) Of the total, $25,229 million (2018: $23,644 million) represents the Group's interest in senior notes and $3 million in subordinated notes (2018: $5 million).

NOTE 32
RELATED PARTY DISCLOSURES

The Group provides a range of services to related parties including the provision of banking facilities and standby financing arrangements. Other dealings include granting loans and accepting deposits, and the provision of finance. These transactions are normally entered into on terms equivalent to those that prevail on an arm's length basis in the ordinary course of business.

Other transactions with controlled entities may involve leases of properties, plant and equipment, provision of data processing services or access to intellectual or other intangible property rights. Charges for these transactions are normally on an arm's length basis and are otherwise on the basis of equitable rates agreed between the parties. The Company also provides various administrative services to the Group, which may include accounting, secretarial and legal. Fees may be charged for these services.

Loans made to subsidiaries are generally entered into on terms equivalent to those that prevail on an arm's length basis, except that there are often no fixed repayment terms for the settlement of loans between parties. Outstanding balances are unsecured and are repayable in cash.

Subsidiaries

The table below shows the aggregate amounts receivable / (payable) from subsidiaries for the years ended 30 September:

	Company	
	2019	2018
	$m	$m
Balance at beginning of year	**(2,405)**	1,562
Net cash (inflows) / outflows	**1,227**	(3,898)
Net foreign currency translation movements and other amounts receivable	**(69)**	(69)
Balance at end of year	**(1,247)**	(2,405)

The table below shows material transactions with subsidiaries for the years ended 30 September:

	Company	
	2019	2018
	$m	$m
Net interest (expense)	**(355)**	(473)
Dividend revenue	**1,343**	2,675

Superannuation plans

The following payments were made to superannuation plans sponsored by the Group:

	Group		Company	
	2019	2018	2019	2018
Payment to:	$m	$m	$m	$m
National Australia Bank Group Superannuation Fund A	**239**	238	**239**	238
National Wealth Management Superannuation Plan	**1**	1	**-**	-
Bank of New Zealand Officers Provident Association (Division 2)	**9**	11	**-**	-
National Australia Bank Pension and Workplace Savings Scheme	**7**	7	**7**	7

Transactions between the Group and superannuation plans sponsored by the Group were made on commercial terms and conditions.

NOTE 32 RELATED PARTY DISCLOSURES (CONTINUED)

Key Management Personnel (KMP)

KMP are the directors and senior executives of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group. Details of KMP are set out in the *Remuneration report* of the *Report of the Directors*.

Remuneration

Total remuneration of KMP is included within total personnel expenses in *Note 5 Operating expenses*. The total remuneration is as follows:

	Group	
	2019 $	2018(1) $
Short-term benefits		
Cash salary	**14,797,124**	16,905,268
Variable reward cash	**136,212**	5,371,267
Non-monetary	**617,205**	1,077,477
Post-employment benefits		
Superannuation	**411,710**	405,160
Other long-term benefits		
Other long-term benefits	**164,569**	161,780
Equity-based benefits		
Shares	**738,803**	2,048,309
Performance rights	**(1,654,472)**	8,010,300
Other		
Other remuneration	**1,796,599**	787,341
Special duties	**991,906**	-
Total	**17,999,656**	34,766,902

(1) The 2018 comparative amounts have been adjusted to include prior year salary and superannuation adjustments. See Section 5.1 for more detail.

Performance rights and shareholdings of KMP are set out in the *Remuneration report* included in the *Report of the Directors*.

Loans to KMP and their related parties

During the reporting period, loans made to KMP and other related parties of the Group and Company were $5 million (2018: $10 million). Such loans are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans may be secured or unsecured depending on the nature of the lending product advanced. As at 30 September 2019, the total loan balances outstanding were $23 million (2018: $20 million).

No amounts were written off in respect of any loans made to directors or other KMP of the Group and Company during the current or prior reporting period.

Further details regarding loans advanced to KMP of the Group and Company are included in the *Remuneration report* of the *Report of the Directors*.

NOTE 33
REMUNERATION OF EXTERNAL AUDITOR

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
EY Australia				
Audit services	**11,717**	10,382	**8,587**	7,303
Audit-related services	**7,568**	5,388	**5,970**	3,249
Taxation-related services	**60**	152	**60**	152
Non-audit services	**91**	202	**84**	195
Total Australia	**19,436**	16,124	**14,701**	10,899
Overseas related practices of EY Australia				
Audit services	**4,070**	3,911	**1,953**	1,840
Audit-related services	**731**	534	**363**	232
Taxation-related services	**165**	180	**151**	92
Non-audit services	**8**	602	**-**	488
Total Overseas	**4,974**	5,227	**2,467**	2,652
Total compensation of auditors	**24,410**	21,351	**17,168**	13,551

For a description of the Board Audit Committee's pre-approval policies and procedures, refer to the NAB 2019 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance. Further details of the audit-related, taxation-related and non-audit services provided by EY to the Group during 2019 and the fees paid or due and payable for those services are set out in the *Report of the Directors*.

NOTE 34
EQUITY-BASED PLANS

Accounting policy

The value of shares and performance rights provided to employees are measured by reference to their grant date fair value. The grant date fair value of each share is determined by the market value of NAB shares, and is generally a five day weighted average share price. The grant date fair value of the shares and performance rights with market performance hurdles is determined using a simulated version of the Black-Scholes model.

With the exception of General employee shares in Australia and Asia, the expense for each tranche of shares or performance rights granted is recognised in the income statement on a straight-line basis, adjusted for forfeitures, over the period that the shares provided are received (the vesting period). The expense for General employee shares in Australia and Asia is recognised in the income statement in the year the shares are granted as they are not subject to forfeiture. A corresponding increase is recorded in the equity-based compensation reserve.

Key judgements and estimates

The key assumptions and inputs used in the Black-Scholes model vary depending on the award and type of security granted. They include the NAB share price at the time of the grant, exercise price of the performance rights (which is nil), the expected volatility of NAB's share price, the risk-free interest rate and the expected dividend yield on NAB shares for the life of the performance rights. When estimating expected volatility, historic daily share prices are analysed to arrive at annual and cumulative historic volatility estimates (which may be adjusted for any abnormal periods or non-recurring significant events). Trends in the data are analysed to estimate volatility movements in the future for use in the numeric pricing model. The simulated version of the Black-Scholes model takes into account both the probability of achieving market performance conditions and the potential for early exercise of vested performance rights.

While market performance conditions are incorporated into the grant date fair values, non-market conditions are not taken into account when determining the fair value and expected time to vesting of shares and performance rights. Instead, non-market conditions are taken into account by adjusting the number of shares and performance rights included in the measurement of the expense so that the amount recognised in the income statement reflects the number of shares or performance rights that actually vest.

Under the Group's employee equity plans, employees of the Group are awarded NAB shares and performance rights. An employee's right to participate in a plan is often dependent on their performance or the performance of the Group, and NAB shares and performance rights awarded under the plans are often subject to service and/or performance conditions.

The Board determines the maximum total value of shares or performance rights offered under each plan having regard to the rules of the relevant plan and, where required, the method used in calculating the fair value per security. Under ASX Listing Rules, shares and performance rights may not be issued to NAB directors under an employee equity plan without specific shareholder approval.

Under the terms of most offers, there is a period during which shares are held on trust for the employee they are allocated to and cannot be dealt with, or performance rights allocated to an employee cannot be exercised, by that employee. There may be forfeiture or lapse conditions which apply to shares or performance rights allocated to an employee (as described below), including as a result of the employee ceasing employment with the Group during those periods or conduct standards not being met. Shares allocated to employees are eligible for any cash dividends paid by NAB on those shares from the time those shares are allocated to the trustee on their behalf. Performance rights granted to employees are not eligible for any cash dividends paid by NAB. In some limited circumstances, there may be a cash equivalent payment made in the event that performance rights vest.

NOTE 34 EQUITY-BASED PLANS (CONTINUED)

The key equity-based programs offered to employees are:

	Variable reward (VR)	Long-term variable reward (LTVR)	Commencement awards	Recognition / Retention awards	General employee shares
Description	A proportion of an employee's annual VR is provided in equity and is deferred for a specified period. The deferred amount and the deferral period is commensurate with the level of risk and responsibility within a role. VR was referred to as 'short-term incentive' before: • 2018 financial year, for the Group CEO, other members of the Executive Leadership Team and other Accountable Persons • 2019 financial year for all other employees.	LTVRs (including prior year Long-term Incentive (LTI) grants) are awarded to encourage long-term decision-making critical to creating long-term value for shareholders through the use of challenging long-term performance hurdles.	Provided to enable the buy-out of equity or other incentives from an employee's previous employment.	Offered to key individuals in roles where retention is critical over the medium-term (generally between 2 and 3 years).	Shares up to a target value of $1,000 are offered to eligible employees.
Eligibility	Certain permanent employees based in Australia, Asia, New Zealand, United Kingdom and the United States having regard to their individual performance and the performance of the Group.	The Group CEO and Executive Leadership Team were previously eligible to receive LTI grants except for 2018. Other senior executives were previously eligible to receive LTI grants prior to 2015. The Group CEO and Executive Leadership Team are now eligible to receive LTVR.	Provided on a case by case basis, with the recommendation of the Remuneration Committee and the approval of the Board.	Provided on a case by case basis, with the recommendation of the Remuneration Committee and the approval of the Board.	Generally all permanent employees.
Type of share-based payment	Generally shares. However performance rights are granted to: • The Group CEO and other members of the Executive Leadership Team (except in respect of 2018 when shares were granted) and other Accountable Persons • other employees for jurisdictional reasons.	Performance rights.	Generally shares. However, performance rights are also granted for jurisdictional reasons.	Generally shares. However, performance rights are also granted for jurisdictional reasons.	Shares.

NOTE 34 EQUITY-BASED PLANS (CONTINUED)

	Variable reward (VR)	Long-term variable reward (LTVR)	Commencement awards	Recognition / Retention awards	General employee shares
Service conditions and performance hurdles	Deferred shares or performance rights are forfeited or lapsed during the vesting period if the employee resigns or if conduct standards are not met or, subject to certain exclusions, if the employee's employment with the Group is terminated.	During the vesting period, all of an executive's performance rights will lapse on the executive's resignation from the Group and a pro rata portion will lapse on cessation of employment in other circumstances. Performance rights will also lapse if conduct standards or performance hurdles are not met. The Board has absolute discretion to determine vesting or lapsing outcomes for the performance rights.	Shares or performance rights are subject to restrictions and certain forfeiture or lapsing conditions, including forfeiture or lapsing on resignation from the Group or if conduct standards are not met.	Shares or performance rights are subject to restrictions and certain forfeiture or lapsing conditions, including forfeiture or lapsing on resignation from the Group or if conduct standards are not met.	Shares are subject to restrictions on dealing for three years and, in Australia and Asia, are not subject to forfeiture. In New Zealand, United Kingdom and United States, the shares are effectively forfeited if the employee resigns or is dismissed from the Group before the end of the 3 year restriction period.
Vesting, performance or deferral period (period over which expenses are recognised)	Defined period to align with the level of risk and impact of the role on business performance and results or to meet regulatory requirements. The vesting period will generally be between 1 and 4 years.	Defined period set at time of grant, generally between 4 and 5 years.	Defined period set at time of grant, based on satisfactory evidence of forgone awards from previous employment.	Defined period set at time of grant.	3 years.
Exercise period (only applicable for performance rights)	If the applicable conditions are met, performance rights will vest and each performance right will be automatically exercised. n/a for share grants.	Performance rights granted from 2013 to 2014 generally have an expiry date between 5 and 6 years from the effective date, if they remain unexercised. Performance rights granted from 2015 will be automatically exercised if they vest.	If the applicable conditions are met, performance rights will vest and each performance right will be automatically exercised. n/a for share grants.	If the applicable conditions are met, performance rights will vest and each performance right will be automatically exercised. n/a for share grants.	n/a.
Board discretion	The Board regularly reviews Group performance for risk, reputation, conduct and performance considerations and has the ability to: • Extend the deferral period or performance beyond the original period for the Group CEO, other members of the Executive Leadership Team, other Accountable Persons and, in certain circumstances, other employees. • Forfeit or lapse the deferred shares or performance rights. • Clawback the deferred shares or performance rights for the Group CEO, other members of the Executive Leadership Team, other Accountable Persons and, in certain circumstances, other employees.				n/a.

NOTE 34 EQUITY-BASED PLANS (CONTINUED)

Employee Share Plan

Employee share plans	2019 Fully paid ordinary shares granted during the year No.	2019 Weighted average grant date fair value $	2018 Fully paid ordinary shares granted during the year No.	2018 Weighted average grant date fair value $
Variable reward deferred shares	**3,993,696**	**24.76**	3,637,091	30.32
Commencement and recognition shares	**390,944**	**25.43**	546,675	29.70
General employee shares	**1,032,504**	**24.19**	929,880	29.54

The closing market price of NAB's shares at 30 September 2019 was $29.70 (2018: $27.81). The volume weighted average share price during the year ended 30 September 2019 was $25.80 (2018: $28.87).

Performance rights movements

Number of performance rights	2019	2018
Opening balance as at 1 October	**4,753,714**	4,887,668
Granted	**185,185**	1,999,924
Forfeited	**(1,882,568)**	(967,161)
Exercised	**(261,473)**	(1,166,717)
Closing balance as at 30 September	**2,794,858**	4,753,714
Exercisable as at 30 September	**-**	10,849

Performance rights outstanding

Terms and conditions	2019 Outstanding at 30 Sep No.	2019 Weighted average remaining life months	2018 Outstanding at 30 Sep No.	2018 Weighted average remaining life months
Market hurdle	**1,553,319**	**11**	3,185,150	21
Non-market hurdle	**993,980**	**20**	1,185,908	32
Individual hurdle	**247,559**	**27**	382,656	17

Information on fair value calculation

The table below shows the significant assumptions used as inputs into the grant date fair value calculation of performance rights granted during the last two years. In the following table, values have been presented as weighted averages, but the specific values for each grant are used for the fair value calculation. The following table shows a 'no hurdle' value where the grant includes performance rights which have non-market based performance hurdles attached.

	2019	2018
Weighted average values		
Contractual life (years)	**2.3**	3.3
Risk-free interest rate (per annum)	**2.02%**	2.12%
Expected volatility of share price	**n/a**	21%
Closing share price on grant date	**$24.83**	$29.55
Dividend yield (per annum)	**6.92%**	6.40%
Fair value of performance rights	**n/a**	$9.68
'No hurdle' value of performance rights	**$21.59**	$24.89
Expected time to vesting (years)	**2.06**	3.09

NOTE 35
CAPITAL ADEQUACY

As an ADI, the Company is subject to regulation by APRA under the authority of the *Banking Act 1959* (Cth). APRA has set minimum Prudential Capital Requirements (PCR) for ADIs consistent with the Basel Committee on Banking Supervision (BCBS) capital adequacy framework. PCR are expressed as a percentage of total risk-weighted assets. APRA requirements are summarised below:

Common Equity Tier 1	**Tier 1 capital**	**Total capital**
4.5% minimum	**6.0% minimum**	**8.0% minimum**
CET1 capital consists of the sum of paid-up ordinary share capital, retained profits plus certain other items recognised as the highest quality components of capital.	CET1 capital plus certain securities with complying loss-absorbing characteristics known as Additional Tier 1 capital.	Tier 1 capital plus subordinated debt instruments with complying loss-absorbing characteristics known as Tier 2 capital.

An ADI must hold a capital conservation buffer above the PCR for CET1 capital. The capital conservation buffer is 2.5% of the ADI's total risk-weighted assets. As a Domestic Systemically Important Bank (D-SIB) in Australia, the Group is also required to hold an additional buffer of 1% in CET1 capital.

APRA may determine higher PCR for an ADI and may change an ADI's PCR at any time. A breach of the required ratios under APRA's Prudential Standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital.

Capital ratios are monitored against internal capital targets that are set by the Board over and above minimum capital requirements set by APRA.

The Group remained well capitalised during the year to September 2019, and expects to achieve APRA's 'Unquestionably Strong' capital benchmark from 1 January 2020. The Group's CET1 ratio as at 30 September 2019 was 10.38%.

NOTE 36
NOTES TO THE CASH FLOW STATEMENTS

Reconciliation of net profit attributable to owners of NAB to net cash provided by / (used in) operating activities

	Group		Company	
	2019	2018	2019	2018
	$m	$m	$m	$m
Net profit attributable to owners of NAB	**4,798**	5,554	**3,279**	5,219
Add / (deduct) non-cash items in the income statement:				
(Increase) / decrease in interest receivable	**176**	(193)	**160**	(197)
Increase / (decrease) in interest payable	**(347)**	260	**(306)**	225
Increase in unearned income and deferred net fee income	**16**	12	**8**	13
Fair value movements on assets, liabilities and derivatives held at fair value	**(3,034)**	8,084	**(2,589)**	7,988
Increase in provisions	**2,298**	810	**2,267**	725
Equity-based compensation recognised in equity or reserves	**105**	146	**105**	146
Impairment losses on non-financial assets	**19**	174	**217**	30
Credit impairment charge	**984**	791	**853**	707
Depreciation and amortisation expense	**1,412**	780	**1,024**	530
(Increase) / decrease in other assets	**(58)**	424	**(34)**	411
Decrease in other liabilities	**(135)**	(180)	**(143)**	(219)
Increase / (decrease) in income tax payable	**408**	70	**405**	(220)
(Increase) in deferred tax assets	**(665)**	(279)	**(641)**	(229)
Increase / (decrease) in deferred tax liabilities	**(23)**	8	**(6)**	10
Operating cash flow items not included in profit	**4,517**	(25,395)	**4,323**	(25,690)
Investing or financing cash flows included in profit				
(Gain) on sale of controlled entities, before income tax	**(18)**	(261)	**-**	(274)
(Gain) / loss on sale of associates and joint ventures, before income tax	**(32)**	-	**41**	-
(Gain) on sale of other debt and equity instruments	**(12)**	-	**(12)**	-
(Gain) / loss on sale of property, plant, equipment and other assets	**1**	(1)	**(3)**	-
Net cash provided by / (used in) operating activities	**10,410**	(9,196)	**8,948**	(10,825)

NOTE 36 NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

Reconciliation of liabilities arising from financing activities

	Group			Company		
	Bonds, notes and subordinated debt At fair value $m	Bonds, notes and subordinated debt At amortised cost $m	Other debt issues At amortised cost $m	Bonds, notes and subordinated debt At fair value $m	Bonds, notes and subordinated debt At amortised cost $m	Other debt issues At amortised cost $m
Balance at 1 October 2017	22,869	124,871	6,187	4,320	121,315	6,187
Cash flows						
Proceeds from issue	4,214	27,925	-	990	25,923	-
Repayments	(4,637)	(18,314)	(41)	(134)	(16,875)	(41)
Non-cash changes						
Fair value changes, including fair value hedge adjustments	(266)	(1,185)	-	(57)	(1,193)	-
Foreign currency translation and other adjustments	1,400	6,925	12	366	6,940	12
Balance at 30 September 2018	23,580	140,222	6,158	5,485	136,110	6,158
Cash flows						
Proceeds from issue	**4,213**	**22,946**	**1,874**	**227**	**21,316**	**1,874**
Repayments	**(3,734)**	**(27,267)**	**(799)**	**(170)**	**(26,260)**	**(799)**
Non-cash changes						
Conversion of convertible preference shares	**-**	**-**	**(750)**	**-**	**-**	**(750)**
Fair value changes, including fair value hedge adjustments	**982**	**3,131**	**-**	**570**	**2,215**	**-**
Foreign currency translation and other adjustments	**957**	**4,226**	**(1)**	**302**	**4,218**	**(1)**
Balance at 30 September 2019	**25,998**	**143,258**	**6,482**	**6,414**	**137,599**	**6,482**

Reconciliation of cash and cash equivalents

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

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

	Group		Company	
Cash and cash equivalents	**2019 $m**	**2018 $m**	**2019 $m**	**2018 $m**
Assets				
Cash and liquid assets	**55,457**	50,188	**54,811**	49,717
Treasury and other eligible bills	**795**	672	**-**	-
Due from other banks (excluding mandatory deposits with supervisory central banks)	**23,705**	24,372	**20,635**	22,116
Total cash and cash equivalent assets	**79,957**	75,232	**75,446**	71,833
Liabilities				
Due to other banks	**(32,931)**	(37,286)	**(31,282)**	(35,465)
Total cash and cash equivalents	**47,026**	37,946	**44,164**	36,368

NOTE 36 NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

Non-cash financing and investing activities

	Group		Company	
	2019	**2018**	**2019**	**2018**
	$m	**$m**	**$m**	**$m**
New share issues				
Dividend reinvestment plan	**1,803**	1,182	**1,803**	1,182
Conversion of convertible preference shares	**750**	-	**750**	-

The Group offered a 1.5% discount on the Dividend Reinvestment Plans for dividends paid during the year ended 30 September 2019. For the year ended 30 September 2018, the Group did not offer a discount on the Dividend Reinvestment Plan for the interim dividend.

On 20 March 2019, the Group completed the resale of all convertible preference shares (CPS) issued on 20 March 2013 to a nominated purchaser, in accordance with the resale notice issued on 11 February 2019. Following the resale, $750 million of CPS were converted into ordinary shares, and the remaining balance of approximately $764 million of CPS was redeemed.

NOTE 37
DISCONTINUED OPERATIONS

Accounting policy

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, and is part of a single coordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately in the income statements and statements of comprehensive income.

The results set out below represent the discontinued operations of the Group's life insurance business and the UK Banking operations related to the CYBG demerger which occurred in the 2016 financial year. During the 2019 financial year, a net loss of $289 million was recognised in discontinued operations. This includes customer-related remediation relating to the insurance business and additional costs associated with the insurance business sale. Refer to *Note 29 Contingent liabilities and credit commitments* for further information.

Analysis of loss for the year from discontinued operations

	2019	**2018**
Total discontinued operations	**$m**	**$m**
Net (loss) from life insurance business discontinued operation	**(289)**	(97)
Net (loss) from CYBG discontinued operation	**-**	(291)
Net (loss) from discontinued operations	**(289)**	(388)

NOTE 38
EVENTS SUBSEQUENT TO REPORTING DATE

On 14 November 2019, Dr Ken Henry resigned as non-executive director and Chairman of the Board. Mr Philip Chronican commenced as Chairman of the Board, effective 15 November 2019 with his last day as interim Group CEO on 14 November 2019. Mr Gary Lennon, Group CFO will be acting Group CEO from 15 November 2019 to 1 December 2019 while continuing as Group CFO.

On 13 September 2019, NAB exercised its option to redeem the EUR750 million medium-term notes. The notes were repaid at par on 12 November 2019.

Other than the matters noted, there are no items, transactions or events of a material or unusual nature that have arisen in the interval between 30 September 2019 and the date of this report that, in the opinion of the directors, have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

The directors of National Australia Bank Limited declare that:

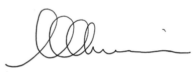
(a) in the opinion of the directors, the financial statements and the notes thereto as set out on pages 73 to 164 and the additional disclosures included in the audited pages of the *Remuneration report*, comply with Australian Accounting Standards (including the Australian Accounting Interpretations), International Financial Reporting Standards as stated in *Note 1 Bases of presentation and measurement* to the financial statements, and the *Corporations Act 2001* (Cth);

(b) in the opinion of the directors, the financial statements and notes thereto give a true and fair view of the financial position of NAB and the Group as at 30 September 2019, and of the performance of NAB and the Group for the year ended 30 September 2019;

(c) in the opinion of the directors, at the date of this declaration, there are reasonable grounds to believe that NAB will be able to pay its debts as and when they become due and payable; and

(d) the directors have been given the declarations required by section 295A of the *Corporations Act 2001* (Cth).

Dated this 15th day of November 2019 and signed in accordance with a resolution of the directors.



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

Report on the Audit of the Financial Report

Opinion

We have audited the Financial Report of National Australia Bank Limited (the Company) and its subsidiaries (collectively the Group), which comprises:

- the Group consolidated and Company balance sheets as at 30 September 2019;
- the Group consolidated and Company income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies, and
- the Directors' declaration.

In our opinion the accompanying Financial Report is in accordance with the *Corporations Act* 2001, including:

- giving a true and fair view of the Company's and the Group's financial position as at 30 September 2019 and of their financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations* 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current year. These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. The key audit matters identified below, unless otherwise stated, relate to both the Company and the Group.

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We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Report.

Why significant	How our audit addressed the key audit matter
Provision for credit impairment	

As described in Notes 17 *Provision for credit impairment on loans at amortised cost* and 19 *Financial risk management*, the provision for credit impairment is determined in accordance with Australian Accounting Standard – AASB 9 *Financial Instruments* (AASB 9).
 	
This was a key audit matter due to the size and timing of the recognition of the provision, and the degree of judgement and estimation uncertainty associated with the calculations.
 	
Key areas of judgement included:
▶ the application of the impairment requirements under AASB 9 within the Group's expected credit loss methodology;
▶ the identification of exposures with a significant deterioration in credit quality;
▶ assumptions used in the expected credit loss model (for exposures assessed on an individual or collective basis); and
▶ the incorporation of forward-looking information to reflect current or future external factors (e.g. unemployment rates, interest rates, gross domestic product growth rates, property-price indices).
	Our audit procedures included the following:
	
	We assessed:
	▶ the alignment of the Group's expected credit loss model and its underlying methodology with the requirements of AASB 9;
	▶ the approach determined by the Group for the incorporation of forward-looking macroeconomic factors;
	▶ the effectiveness of relevant controls relating to the:
	    ▶ capture of data used to determine the provision for credit impairment, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data in data warehouses and interfaces to the expected credit loss model; and
	    ▶ expected credit loss model, including functionality, ongoing monitoring/validation and model governance.
	
	We examined a sample of exposures assessed on an individual basis and evaluated the:
	▶ timely identification of exposures with a significant deterioration in credit quality; and
	▶ expected loss calculation for these exposures.
	
	We assessed the significant modelling assumptions for exposures evaluated on a collective basis and overlays, with a focus on the:
	▶ basis for and data used to determine overlays; and
	▶ sensitivity of the collective provisions to changes in modelling assumptions.
	
	We considered the processes used to identify, assess and manage climate-related risks associated with the Group's loan portfolio.
	
	We considered the adequacy and appropriateness of the disclosures related to credit impairment within the Financial Report.
	
	We involved our Actuarial and IT specialists in the performance of these procedures where their specific expertise was required.

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Why significant	How our audit addressed the key audit matter
Customer-related remediation provisions	
As detailed in Notes 24 *Provisions* and 29 *Contingent liabilities and credit commitments*, the Group is exposed to regulatory activity, compliance investigations and associated proceedings in various jurisdictions (primarily in Australia). In this context, the Group recorded provisions for customer-related remediation programs and regulatory activity. This was a key audit matter due to the significant judgement required to determine a reliable estimate of the provision. Key areas of judgement included the: ▶ decision to recognise a provision, including whether sufficient information existed to allow a provision to be reliably measured; ▶ assumptions used to estimate the customer-related remediation payments, including refund rates and average compensation amounts; and ▶ costs required to complete the remediation programs.	Our audit procedures included the following: We developed an understanding of potential regulatory and customer-related remediation obligations through our industry experience, and discussions with management and Directors, review of Board and committee minutes and correspondence with regulators. We assessed and tested key assumptions used to estimate the customer-related remediation payments, including a consideration of industry and historical trends. We evaluated the adequacy of the costs recognised with reference to the status of each program and costs incurred to date. For those matters where the Group determined that a sufficiently reliable estimate of the amount of the obligation cannot be made and for which no provisions have been recognised, we considered all available information to assess the appropriateness of this conclusion as contingent liabilities. We considered the adequacy and appropriateness of the disclosures within the Financial Report related to regulatory and customer-related remediation risk and provisions.

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Why significant	How our audit addressed the key audit matter
Information Technology (IT) systems and controls over financial reporting	
A significant part of the Group's financial reporting process is primarily reliant on IT systems with automated processes and controls relating to the capture, storage and extraction of information. A fundamental component of IT controls is ensuring that risks relating to inappropriate user access unauthorised program changes and IT operating protocols are addressed.	We focused our audit procedures on those IT systems and controls that are significant to the Group's financial reporting process. As audit procedures over IT systems and controls require specific expertise, we involved our IT specialists. We assessed the design and tested the operating effectiveness of the Group's IT controls, including those related to user access, change management and data integrity. Where we identified design and/or operating deficiencies in the IT control environment, our procedures included the following: ▶ We extended our testing to validate the integrity and reliability of the associated systems, data and reporting as it relates to financial reporting. ▶ Where automated procedures were supported by systems with identified deficiencies, we extended our procedures to test alternative controls.

Why significant	How our audit addressed the key audit matter
NAB Wealth classification and carrying value	
Group and Company: On 3 May 2018, NAB announced to the market the intention to pursue a divestment of the Advice, Platform & Superannuation and Asset Management businesses (Wealth Business). As at 30 September 2019, this project had not sufficiently progressed to trigger the application of Australian Accounting Standard – AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (AASB 5). Company only: In addition, in relation to the Company only, as detailed in Note 5 *Operating expenses*, the Company recognised an impairment of its investment in National Wealth Management Holdings Limited (NWMH), which is the holding company for the Company's Wealth Business. The impairment amount was calculated by comparing the carrying value of the Company's investment in NWMH with its recoverable amount as at 30 September 2019. The recoverable amount was determined using a value in use calculation. This calculation incorporated a range of assumptions, including: ▶ future cash flows; ▶ discount rate; and ▶ terminal growth rate. This was a key audit matter due to the degree of judgement involved in the held-for-sale determination and the degree of estimation uncertainty associated with the assumptions applied in the impairment assessment.	Our audit procedures included the following: We gained an understanding of the status of the divestment project through discussions with management and Directors, and review of Board and committee minutes and papers. We assessed the progress of the planned divestment of the Wealth Business against the requirements of AASB 5 to determine whether the application of AASB 5 was triggered as at 30 September 2019. We assessed whether the methodology used by the Company for the impairment assessment of NWMH was in line with the requirements of Australian Accounting Standards. We agreed the forecast cash flows to the most recent Board or management-approved cash flow forecasts and assessed the accuracy of the Company's previous forecasts by performing a comparison of historical forecasts to actual results. We involved our valuation specialists to assess the key assumptions, including the discount rate, terminal growth rate and growth assumptions, used in the impairment assessment with reference to comparable companies and to test the mathematical accuracy of the impairment models. We evaluated the adequacy of impairment that was recognised during the financial year. We benchmarked the implied valuations to comparable company valuation multiples.

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Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's Annual Financial Report for the year ended 30 September 2019, but does not include the Financial Report and our auditor's report thereon.

Our opinion on the Financial Report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the Financial Report, the Directors are responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Financial Report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the Financial Report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 43 to 71 of the Report of the Directors for the year ended 30 September 2019.

In our opinion, the Remuneration Report of National Australia Bank Limited for the year ended 30 September 2019 complies with section 300A of the *Corporations Act* 2001.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act* 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Sarah Lowe

Sarah Lowe
Partner
Melbourne

15 November 2019

Twenty largest registered fully paid ordinary shareholders of the Company as at 31 October 2019

	Number of shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	664,493,153	23.05
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	398,228,720	13.81
CITICORP NOMINEES PTY LIMITED	202,254,234	7.02
NATIONAL NOMINEES LIMITED	126,059,367	4.37
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	59,306,416	2.06
BNP PARIBAS NOMS PTY LTD <DRP>	33,204,183	1.15
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	25,659,564	0.89
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	16,511,945	0.57
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	9,342,065	0.32
CPU SHARE PLANS PTY LTD	8,469,080	0.29
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,917,543	0.28
AMP GROUP	7,795,055	0.27
ARGO INVESTMENTS LIMITED	6,309,685	0.22
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	5,244,781	0.18
MILTON CORPORATION LIMITED	4,868,831	0.17
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	4,219,665	0.15
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	4,156,351	0.15
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	3,853,107	0.13
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	3,849,773	0.13
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	3,542,724	0.12
Total	**1,595,286,242**	**55.33**

Substantial shareholders

As at 31 October 2019, BlackRock Group and its associated entities were substantial holders in the Company, holding 165,256,838 fully paid ordinary shares.

Distribution of fully paid ordinary shareholdings

	Number of shareholders	% of holders	Number of shares	% of shares
Range (number)				
1 – 1,000	333,206	58.03	124,700,361	4.33
1,001 – 5,000	189,930	33.08	428,317,846	14.86
5,001 – 10,000	31,939	5.56	222,956,725	7.73
10,001 – 100,000	18,644	3.25	382,886,677	13.28
100,001 and over	449	0.08	1,724,157,028	59.80
Total	**574,168**	**100**	**2,883,018,637**	**100**
Less than marketable parcel of $500	15,564		117,296	

Voting rights

Each ordinary shareholder present at a general meeting (whether in person or by proxy or representative) is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held. Holders of partly paid shares voting on a poll are entitled to a number of votes based upon the proportion that the amount of capital call and paid up on the shares bears to the total issue price of the shares.

Twenty largest registered National Income Securities (NIS) holders as at 31 October 2019

	Number of securities	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,536,230	12.68
CITICORP NOMINEES PTY LIMITED	1,898,964	9.49
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	836,458	4.18
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	599,185	3.00
MUTUAL TRUST PTY LTD	234,000	1.17
BNP PARIBAS NOMS PTY LTD <DRP>	232,994	1.16
NATIONAL NOMINEES LIMITED	205,554	1.03
BNP PARIBAS NOMS (NZ) LTD <DRP>	171,162	0.86
LAVA CORPORATION PTY LTD <LAVA UNIT A/C>	162,850	0.81
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	159,249	0.80
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	159,078	0.80
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	153,124	0.77
TAVERNERS NO 11 PTY LTD <BRENCORP NO 11 UNIT A/C>	128,740	0.64
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	113,071	0.57
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	108,311	0.54
BALMORAL FINANCIAL INVESTMENTS PTY LTD <NO 2 A/C>	74,812	0.37
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	73,796	0.37
TAVERNERS NO 11 PTY LTD <STONEYVILLE INVEST UNIT A/C>	64,350	0.32
CUSTODIAL SERVICES LIMITED <BENEFICIARIES HOLDING A/C>	61,749	0.31
EASN PTY LTD <SANE SUPERANNUATION FUND A/C>	60,000	0.30
Total	**8,033,677**	**40.17**

Distribution of NIS holdings

	Number of security holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	23,729	91.87	5,736,752	28.69
1,001 – 5,000	1,856	7.18	3,564,391	17.82
5,001 – 10,000	143	0.55	1,012,740	5.06
10,001 – 100,000	87	0.34	1,987,147	9.94
100,001 and over	15	0.06	7,698,970	38.49
Total	**25,830**	**100**	**20,000,000**	**100**
Less than marketable parcel of $500	48		156	

Voting rights

Holders of NIS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per NIS preference share on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the NIS preference shares.

Twenty largest registered NAB Convertible Preference Shares II (NAB CPS II) holders as at 31 October 2019

	Number of securities	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,369,372	7.97
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	274,178	1.60
BERNE NO 132 NOMINEES PTY LTD <684168 A/C>	241,496	1.41
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	237,786	1.38
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	211,749	1.23
LONGHURST MANAGEMENT SERVICES PTY LTD	206,000	1.20
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	196,491	1.14
NATIONAL NOMINEES LIMITED	186,694	1.09
NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	175,883	1.02
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	166,037	0.97
BNP PARIBAS NOMS PTY LTD <DRP>	158,174	0.92
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	118,924	0.69
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	89,129	0.52
CITICORP NOMINEES PTY LIMITED	86,105	0.50
NAVIGATOR AUSTRALIA LTD <JB WERE LIST FIX INT SMA A/C>	81,369	0.47
CITICORP NOMINEES PTY LIMITED <DPSL>	72,969	0.42
MUTUAL TRUST PTY LTD	70,463	0.41
RACQ INVESTMENTS PTY LTD	66,550	0.39
EASTCOTE PTY LTD <VAN LIESHOUT FAMILY A/C>	53,229	0.31
MCCUSKER FOUNDATION LTD <THE MCCUSKER CHARITABLE FNDN>	50,000	0.29
Total	**4,112,598**	**23.93**

Distribution of NAB CPS II holdings

	Number of security holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	20,495	90.26	6,782,978	39.50
1,001 – 5,000	1,989	8.76	4,073,479	23.72
5,001 – 10,000	130	0.57	936,596	5.46
10,001 – 100,000	80	0.35	1,836,093	10.69
100,001 and over	12	0.06	3,542,784	20.63
Total	**22,706**	**100**	**17,171,930**	**100**
Less than marketable parcel of $500	15		33	

Voting rights

Holders of Convertible Preference Shares II (CPS II) are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per CPS II on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the CPS II.

Official quotation

Fully paid ordinary shares of the Company are quoted on the ASX.

The Group has also issued:
- National Income Securities, NAB Convertible Preference Shares II, NAB Capital Notes, NAB Capital Notes 2, NAB Capital Notes 3, NAB Subordinated Notes 2, covered bonds and residential mortgage backed securities which are quoted on the ASX.
- Medium-term notes, subordinated notes and covered bonds which are quoted on the Luxembourg Stock Exchange.
- Medium-term notes and subordinated notes which are quoted on the Euro MTF market.
- Undated subordinated floating rate notes which are quoted on the London Stock Exchange.
- Medium-term notes and subordinated notes which are quoted on the NZX Debt Market.
- Medium-term notes and covered bonds which are quoted on the SIX Swiss Exchange.
- Medium-term notes which are quoted on the Taipei Exchange.

Unquoted securities

NAB has the following unquoted securities on issue as at 31 October 2019:
- 19,628 partly paid ordinary shares, of which there are 27 holders
- 2,794,858 performance rights, of which there are 128 holders (see page 34 of this report for further details).

Chairman
Mr Philip Chronican
BCom (Hons), MBA (Dist), GAICD, SF Fin

Group Chief Executive Officer (acting) and Group Chief Financial Officer
Mr Gary Lennon
BEc (Hons), FCA

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Company Secretary
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Corporate Responsibility
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National Australia Bank Limited
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Australia
Email: corporate.responsibility@nab.com.au

Shareholders' Centre website
The Group's website at www.nab.com.au/shareholder has a dedicated separate section where shareholders can gain access to a wide range of information, including copies of recent announcements, annual financial reports as well as extensive historical information.

Shareholders' Centre information line
There is a convenient 24 hours a day, 7 days a week automated service. To obtain the current balance of your securities and relevant payment details, telephone 1300 367 647 (Australia) or +61 3 9415 4299 (outside Australia).

These services are secured to protect your interests. In all communications with the Share Registry, please ensure you quote your Securityholder Reference Number (SRN), or in case of broker sponsored shareholders, your Holder Identification Number (HIN).

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Contact details for NAB ADR brokers & institutional investors:
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Term Used	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 (DPD) and gross impaired assets to GLAs	Loans and advances 90+ DPD but not impaired and impaired assets expressed as a percentage of Gross loans and acceptances. Calculated as the sum of 'Loans and advances past due but not impaired (past due over 90 days)' and 'Gross impaired assets' divided by Gross Loans and Acceptances.
AASB	Australian Accounting Standards Board.
ACCC	Australian Competition and Consumer Commission.
Accountable Person	An accountable person for the purposes of the *Banking Act 1959* (Cth).
ADI	Authorised Deposit-taking Institution.
ADR	American Depositary Receipt.
AGM	Annual General Meeting.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to ADIs.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange Limited (or the market operated by it).
Assets under management (AUM)	Represents the market value of funds for which the Group acts as funds adviser or investment manager.
Average equity (adjusted)	Average equity (adjusted) is adjusted to exclude non-controlling interests and other equity instruments.
Average interest earning assets	The average balance of assets held by the Group over the period that generate interest income.
Bank levy	A levy imposed under the *Major Bank Levy Act 2017* (Cth) on ADIs with total liabilities of more than $100 billion.
Basel III	Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and is effective for ADIs from 1 January 2013.
BBSW	Bank Bill Swap Rate.
BNZ	Bank of New Zealand.
Business and Private Banking	Business and Private Banking focuses on serving the needs of three of NAB's priority customer segments – small businesses, medium businesses and investors. Customers are served through an integrated banking model locally led by managing partners through business banking centres and through the small business customer hubs. This includes specialists Health, Agribusiness, Government, Education, Community and Franchising (GECF), Professional Services and Commercial Real Estate. The division also serves High Net Worth customers through the Private Bank and JBWere.
Business lending	Lending to non-retail customers including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
Cash earnings	Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the September 2019 financial year has been adjusted for the following: - Distributions. - Fair value and hedge ineffectiveness. - Amortisation of acquired intangible assets. - MLC Wealth divestment separation costs.
Cash net interest income (Cash NII)	Cash NII is derived from statutory net interest income, including management adjustments for fair value hedge ineffectiveness and a reclassification of income from the Wealth business that management considers better reflected in net interest income for their purposes. In these financial statements, there is no material difference between Cash NII and statutory net interest income.
Cash return on equity (cash ROE)	Cash earnings after tax expressed as a percentage of average equity (adjusted), calculated on a cash earnings basis.
CGU	Cash-generating unit.
Committed Liquidity Facility (CLF)	A facility provided by the RBA to certain ADIs to assist them in meeting the Basel III liquidity requirements.
Common Equity Tier 1 (CET1) capital	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 paid-up ordinary share capital, retained profits plus certain other items as defined in APS 111 *Capital Adequacy: Measurement of Capital*.
Common Equity Tier 1 Ratio	CET1 capital divided by risk-weighted assets.
Company	National Australia Bank Limited (NAB) ABN 12 004 044 937.

GLOSSARY

Term Used	Description
Consumer Banking and Wealth	Consumer Banking and Wealth provides customers with products and services through proprietary networks in NAB and UBank, as well as third party and mortgage brokers. Customers are served through the Consumer Banking network to secure home loans or manage personal finances through deposit, credit or personal loan facilities. The network also provides servicing support to individuals and business customers. Wealth, including Wealth Advice, Asset Management and Superannuation, provides customers with access to advisers and a financial planning network of self-employed and employed advisers in Australia.
Continuing Operations	Continuing operations are the components of the Group which are not discontinued operations.
Core assets	Represents gross loans and advances including acceptances, financial assets at fair value, and other debt instruments at amortised cost.
Corporate and Institutional Banking	Corporate and Institutional Banking provides a range of lending and transactional products and services related to financial and debt capital markets, specialised capital, custody and alternative investments. The division serves its customers in Australia and globally through branches in the US, UK and Asia with specialised industry relationships and product teams.
Corporate Functions and Other	The Group's 'Corporate Functions' business includes functions that support all businesses, including Treasury, Technology and Operations, Support Units and Eliminations.
Customer deposits	The sum of interest bearing, non-interest bearing and term deposits (including retail and corporate deposits).
Customer Funding Index (CFI)	Customer deposits (excluding certain short dated institutional deposits used to fund liquid assets) divided by core assets.
CYBG	CYBG PLC.
CYBG Group	CYBG PLC and its controlled entities.
Deferred STI shares	Deferred STI shares form part of the Short-term incentives (STI) equity-based plan. They are NAB ordinary shares, allocated at no charge to the employee, in respect of prior year performance, which provide dividend income to the employee from allocation.
Dilutive potential ordinary share	A financial instrument or other contract that may entitle its holder to ordinary shares and which would have the effect of decreasing earnings per share. For the Group these include convertible preference shares, convertible notes, and shares issued under employee incentive schemes.
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 equity instruments other than ordinary shares such as National Income Securities and Trust Preferred Securities.
EaR	Earnings at risk.
Earnings per share (EPS) - basic	Calculated as net profit attributable to ordinary equity holders of the parent (statutory basis) or cash earnings (cash earnings basis) divided by the weighted average number of ordinary shares.
Earnings per share (EPS) - diluted	Calculated as net profit attributable to ordinary equity holders of the parent (statutory basis) or cash earnings (cash earnings basis) divided by the weighted average number of ordinary shares, after adjusting both earnings and the weighted average number of ordinary shares for the impact of dilutive potential ordinary shares.
Face value	The face value of each performance right is determined by the market value of a NAB share. NAB generally uses a five day weighted average share price to determine the face value at grant and on allocation.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.
Fair value and hedge ineffectiveness	Represents volatility from the Group's assets and liabilities designated at fair value, hedge accounting ineffectiveness from designated accounting hedge relationships, or from economic hedges where hedge accounting has not been applied.
Fair value (for the purposes of equity awards set out in the Remuneration Report)	The value of the awards provided are measured by reference to the grant date fair value of the shares and performance rights provided to employees. The grant date fair value of each share is determined by the market value of NAB shares, and is generally a five day weighted average share price. The fair value of the shares and performance rights with market performance hurdles is determined using a simulated version of the Black-Scholes model.
FCA	Financial Conduct Authority (formerly the UK Financial Service Authority).
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.
FVOCI	Fair Value through Other Comprehensive Income.

Term Used	Description
Gross Domestic Product (GDP)	GDP is the market value of the finished goods and services produced within a country in a given period of time.
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)	Consists primarily of cash, deposits with central banks, Australian semi-government and Commonwealth government securities and securities issued by foreign sovereigns as defined in APS 210 *Liquidity*.
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 90 days past due 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).
Internal ratings-based (IRB)	IRB approach refers to the processes employed by the Group to estimate credit risk. This is achieved through the use of internally developed models to assess the potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.
Key Management Personnel (KMP)	KMP are the directors of NAB and senior executives of the Group who have authority and responsibility of planning, directing and controlling activities of both NAB and the Group.
Leverage ratio	Tier 1 capital divided by exposures as defined by APS 110 *Capital Adequacy*. It is a simple, non-risk based measure to supplement the risk-weighted assets based capital requirements. Exposures include on-balance sheet exposures, derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.
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)	A metric that measures the adequacy of HQLA available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario.
Marketable debt securities	Comprises trading securities and debt instruments.
NAB	National Australia Bank Limited ABN 12 004 044 937.
Net interest margin (NIM)	Net interest income derived on a cash earnings basis expressed as a percentage of average interest earning assets.
Net Promoter Score (NPS)	Net Promoter Score measures the net likelihood of recommendation to others of the customer's main financial institution for retail or business banking. Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.
Net Stable Funding Ratio (NSFR)	NSFR is a measure announced as part of the Basel III liquidity reforms that came into force 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) based on the liquidity characteristics of an ADI's assets and activities over a one-year horizon.
New Zealand Banking	New Zealand Banking comprises the Consumer Banking, Wealth, Business, Agribusiness, Corporate and Insurance franchises and Markets Sales operations in New Zealand, operating under the 'Bank of New Zealand' brand. It excludes Bank of New Zealand's Markets Trading operations.
Official Cash Rate (OCR)	Official Cash Rate is an interest rate set by the Reserve Bank of New Zealand.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
Restructuring-related costs	Consist of personnel, occupancy, software impairment and other general charges recognised as part of acceleration of the Group's strategy announced in November 2017.
Return on Total Allocated Equity (ROTAE)	ROTAE is a function of cash earnings, risk-weighted assets, regulatory capital deductions and target capital ratios.
Risk-weighted assets	A quantitative measure of risk required by the APRA risk-based capital adequacy framework, covering credit risk for on and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
RMBS	Residential Mortgage Backed Securities.
Royal Commission	The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry established on 14 December 2017 by the Governor-General of the Commonwealth of Australia to conduct a formal public inquiry into Australian financial institutions.

Term Used	Description
Securitisation	Structured finance technique which involves pooling and packaging cash-flow converting financial assets into securities that can be sold to investors.
Senior executives	The Executive Leadership Team, excluding the Group CEO.
Short-term incentive (STI)	An 'at risk' opportunity for individuals to receive an annual performance-based reward. The actual STI reward that an individual will receive in any particular year will reflect both business and individual performance.
Special Purpose Entity (SPE)	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). An SPE may take the form of a corporation, trust, partnership or unincorporated entity. SPEs are often created with legal arrangements that impose strict limits on the activities of the SPE.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Statutory return on equity	Statutory earnings after tax expressed as a percentage of Average equity (adjusted), calculated on a statutory basis.
Term Funding Index (TFI)	Term wholesale funding (with a remaining maturity to first call date greater than 12 months) divided by core assets.
Tier 1 capital	Tier 1 capital comprises Common Equity Tier 1 (CET1) capital and instruments that meet the criteria for inclusion as Additional Tier 1 capital set out in APS 111 *Capital Adequacy: Measurement of Capital*.
Tier 1 capital ratio	Tier 1 capital divided by risk-weighted assets.
Tier 2 capital	Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.
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.
Total capital	The sum of Tier 1 capital and Tier 2 capital.
Total capital ratio	Total capital divided by risk-weighted assets.
Total Shareholder Return (TSR)	TSR represents share price change over a period of time plus dividends paid over that period.
Treasury shares	Shares issued to meet the requirements of employee incentive schemes which have not yet been distributed.
Underlying profit/Loss	Underlying profit / loss is a performance measure used by NAB. It represents cash earnings / deficit before various items, including income tax expense and the credit impairment charge. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards.
VaR	Value at Risk.
Wealth	Wealth provides superannuation, investment and insurance solutions to retail, corporate and institutional clients. Wealth operates a large national team of employed and self-employed financial advisers.
Weighted average number of ordinary shares	The number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

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