

FULL YEAR RESULTS 2019

Incorporating the requirements of Appendix 4E

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

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Results for Announcement to the Market

Report for the full year ended 30 September 2019

	30 September 2019				
	\$m				
Revenue from ordinary activities ⁽¹⁾	down	6.1%	*	to	17,931
Net profit after tax from ordinary activities attributable to owners of NAB	down	13.6%	*	to	4,798
Net profit attributable to owners of NAB	down	13.6%	*	to	4,798

* On prior corresponding period (twelve months ended 30 September 2018).

Dividends	Amount per share cents	Franked amount per share %	
Final dividend	83	100	
Interim dividend	83	100	
Record date for determining entitlements to the final dividend			15 November 2019

A Glossary of Terms is included in Section 6.

A reference in this Appendix 4E to the 'Group' is a reference to NAB and its controlled entities. All currency amounts are expressed in Australian dollars unless otherwise stated. References in this document to the September 2019 full year are references to the twelve months ended 30 September 2019. Other twelve month periods are referred to in a corresponding manner. The Group's consolidated financial statements, prepared in accordance with the *Corporations Act 2001* (Cth), are included in Section 4. See page 98 for a complete index of ASX Appendix 4E requirements.

⁽¹⁾ Required to be disclosed by Appendix 4E. Reported as the sum of the following from the Group's consolidated income statement: Net interest income \$13,558 million and total other income \$4,373 million. On a cash earnings basis revenue decreased by 4.2%. Refer to information on cash earnings on page 2 of Section 1 of the 2019 Full Year Results.

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2019 FULL YEAR RESULTS SUMMARY



2019 FINANCIAL HIGHLIGHTS

\$4,798m

Statutory net profit

\$5,097m

Cash earnings¹
Down 10.6% v FY18

\$6,545m cash earnings ex large notable items of \$1,448m
Up 0.8% v FY18²

83CPS

Final dividend 100% franked

10.38%

Group Common Equity Tier 1 (CET1) ratio

“This year has been very challenging, requiring significant actions for us to deal with past issues and make real changes aimed at earning trust with customers and the community.

Fixing things for customers is an important part of that process. We now have more than 950 people dedicated to remediating customers and in FY19 recognised additional charges of \$1,100 million after tax for customer-related remediation³. These charges, along with a change in our software capitalisation policy, are the main reasons FY19 cash earnings are 10.6% lower than FY18. While this is a disappointing outcome, excluding these large notable items, cash earnings rose 0.8%. We are now more than two years into our three year transformation. Becoming simpler and faster is delivering real benefits, allowing us to invest in better products and services as well as stronger compliance and controls while holding FY19 expenses broadly flat, as targeted.

While the operating environment has weakened, our SME franchise continues to perform strongly, growing business lending well above peers. We remain committed to continuing to lend and support our customers and the broader community.

We are determined to move forward by fixing issues of the past and taking actions to meet customer and community expectations. A gap remains between where we are today and where we need to be for customers, but we are making progress and will execute with urgency, discipline and accountability to become the bank we can all be proud of.”

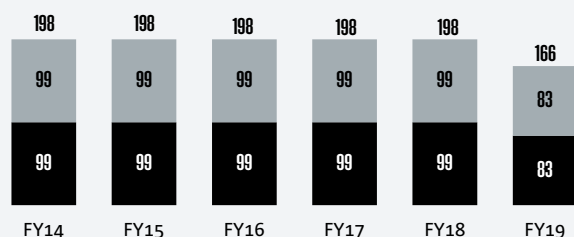
PHILIP CHRONICAN
NAB CEO

SHAREHOLDER OUTCOMES

DIVIDENDS (CPS)

In respect of each financial year period

■ Interim ■ Final



BACKING OUR CUSTOMERS & THE COMMUNITY IN 2019

- Priority Segments Net Promoter Score (NPS)⁴ for September 2019 up 2 points over the year to -14, with NAB equal first of major banks
- Simplifying fees with 185 fees removed or reduced in FY19 across Australian Banking and Wealth
- Helping Australians access affordable housing with a \$2 billion commitment to provide loans and new financing options for affordable and specialist housing, crisis accommodation and disability housing
- Supporting our customers and the community to tackle cybersecurity with educational forums and resources, and via research and funding alliances

¹ Refer cash earnings note and reconciliation on page 6.

² Cash earnings large notable items after tax: customer-related remediation \$1,100m in FY19, \$261m in FY18; capitalised software policy change \$348m in FY19; restructuring-related costs \$530m in FY18.

³ Continuing operations only. The Group also recognised \$257m after tax for customer-related remediation in discontinued operations in FY19.

⁴ Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Priority Segments NPS data is based on six month moving averages from DBM Atlas & BFSM Research.

NAB 2019 FULL YEAR RESULTS

The September 2019 full year results are compared with the September 2018 full year results for continuing operations unless otherwise stated. Operating Performance and Asset Quality are expressed on a cash earnings basis.

OPERATING PERFORMANCE FY19 V FY18

- Revenue down 4.2%. Excluding customer-related remediation, revenue rose 1.1% mainly reflecting growth in business lending partly offset by lower margins.
- Net Interest Margin (NIM) declined 7 basis points (bps) to 1.78%. Excluding Markets and Treasury and customer-related remediation, NIM declined 4bps with home lending competition an important driver.
- Expenses rose 0.2%. Excluding large notable items⁵, expenses were up 0.4% with productivity benefits and lower performance based compensation largely offsetting higher investment and increased spend to strengthen the compliance and control environment.

FY19 V FY18 DRIVERS OF CASH EARNINGS CHANGE

(ex large notable items⁵)



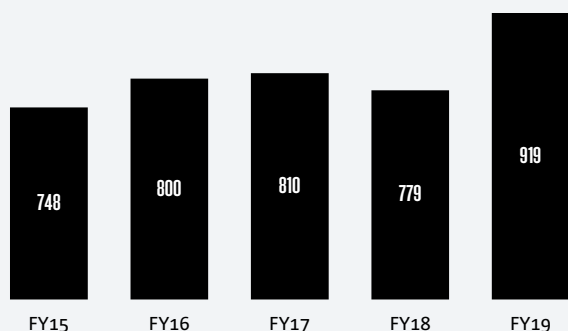
“Our transformation is delivering productivity benefits, allowing us to absorb higher spend to strengthen the compliance and control environment while also investing in our business.

FY19 expense growth is broadly stable, consistent with our target. We continue to target broadly flat expenses over FY20⁶.”

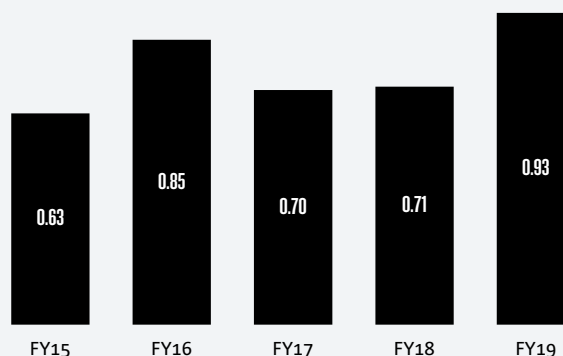
ASSET QUALITY FY19 V FY18

- Credit impairment charges increased 18% to \$919 million, and as a percentage of gross loans and acceptances rose 2bps to 15bps.
- FY19 charges include \$60 million of additional collective provision forward looking adjustments for targeted sectors experiencing elevated levels of risk.
- The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances increased 22bps to 0.93%, largely due to rising Australian mortgage delinquencies.

CREDIT IMPAIRMENT CHARGES (\$ MILLIONS)



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



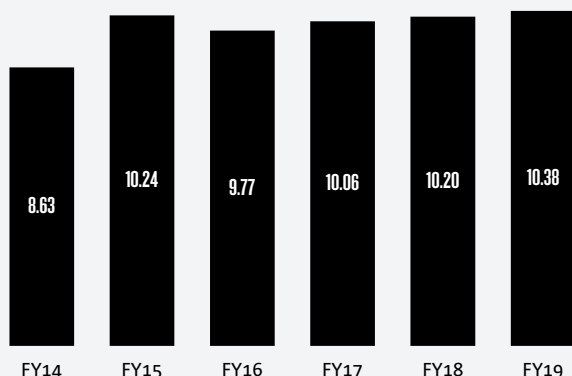
“Asset quality remains sound. While Australian housing arrears increased further, loss rates for this portfolio remain low at 2bps. Collective provision forward looking adjustments for targeted sectors increased over FY19 and now stand at \$641 million.”

⁵ Revenue excludes customer-related remediation \$1,207m in FY19, \$249m in FY18. Expenses excludes: customer-related remediation \$364m in FY19, \$111m in FY18; capitalised software policy change \$494m in FY19; restructuring-related costs \$755m in FY18. Underlying profit represents cash earnings before credit impairment charges, income tax and distributions. Refer note on cash earnings and reconciliation on page 6.

⁶ Excluding large notable items. Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7.

CAPITAL, FUNDING & LIQUIDITY

CET1 RATIO (%)



KEY RATIOS AS AT 30 SEPTEMBER 2019

- Group Common Equity Tier 1 (CET1) ratio of 10.38%, up 18bps from September 2018
- Includes \$1 billion (25bps) of proceeds received in July from the 1H19 underwritten Dividend Reinvestment Plan
- Includes 34bps adverse impact from regulatory changes relating to operating risk and derivative counter party credit risk measurement
- Leverage ratio (APRA basis) of 5.5%
- Liquidity coverage ratio (LCR) quarterly average of 126%
- Net Stable Funding Ratio (NSFR) of 113%

DIVISIONAL PERFORMANCE – CASH EARNINGS⁷

	FY19 (\$M)	% CHANGE FY19 V FY18	KEY DRIVERS FY19 V FY18
Business & Private Banking	2,840	(2.4)	Lower earnings mainly reflecting higher credit impairment charges and higher investment spend. Revenue increased 1% reflecting good SME business lending growth.
Consumer Banking & Wealth	1,366	(11.2)	Banking earnings decreased given lower margins with competitive pressures in housing a key driver, combined with increased credit impairment charges. Wealth earnings also declined reflecting the impact of customer preferences and repricing on margins, and lower average funds under management and administration.
Corporate & Institutional Banking	1,508	(2.1)	A lower result reflecting higher credit impairment charges relating to impairment of a small number of larger exposures. Revenue increased 1% despite lower Markets income, with higher lending volumes benefitting from continued focus on growth segments.
New Zealand Banking (NZ\$M)	1,055	5.1	Higher earnings with increased revenue benefitting from growth in lending, partly offset by increased investment spend and higher credit impairment charges.

⁷ Excludes large notable items which form part of Corporate Functions and Other.

STRATEGIC OVERVIEW⁸

Our purpose is to back the bold who move Australia forward and our vision is to be Australia's leading bank, trusted by customers for exceptional service. We recognise the importance of our actions in achieving this, and that trust in our bank has been impacted when we have failed to meet customer and community expectations. Earning the confidence and trust of our customers and community through actions has been a key focus for FY19. We are making progress, but there is more to do.

An important part of earning trust involves making things right for customers who have been treated poorly in the past. During FY19 we further uplifted our customer remediation practices and now have more than 950 people (including NAB employees and external resources) solely dedicated to remediating customers. Our FY19 cash earnings includes charges of \$1,100 million after tax for additional customer-related remediation³. In combination with provisions raised in 2H18 which have not yet been utilised, our provisions for customer-related remediation as at 30 September 2019 total \$2,092 million. We now have in place provisions for the estimated costs and customer payments relating to all known material customer-related remediation matters based on information currently available. However, until all customer payments have been completed, the final cost of such remediation matters remains uncertain.

We also need to make sustainable change to avoid the mistakes of the past and get it right for customers every time. Addressing the recommendations contained in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry is a key part of this. Of the 76 recommendations, 39 are currently capable of being addressed by NAB. We have completed five of these, and 34 are in progress. In some cases, we had already implemented improvements ahead of the Final Report including ceasing to charge default interest to farmers impacted by drought and removing grandfathered commissions for NAB-employed financial planning advisers⁹.

Together with the Royal Commission recommendations, our APRA self-assessment into NAB's Governance, Accountability and Culture provides a roadmap for sustainable change to address shortcomings identified in our management of compliance, conduct and operational risk. It sets out a clear program of reform, with 26 actions we are committed to implementing. As an example, we launched a customer outcomes framework to systematically review our products and processes against a set of principles to embed fairness, simplicity and trust into product design and delivery. This initiative has been the key driver of 185 fees being reduced or removed across Australian Banking and Wealth in FY19. We have introduced SMS reminders for credit card payments to help customers avoid late fees. For customers who have regularly paid on time for the past 12 months we proactively waived late payment fees.

We are now over two years into our three year transformation. Our \$1.5 billion targeted additional investment over three years is delivering better outcomes for all our stakeholders. Since the transformation started in September 2017, our focus on becoming simpler, faster and less complex for customers and employees has resulted in 30% fewer products, 30% less over-the-counter transactions and a 17% decrease in calls to our call centres. Over this same period the number of IT legacy applications reduced by 11% while 19% of current IT applications were migrated to more reliable, lower cost cloud platforms.

Cost savings of \$480 million were achieved in FY19 bringing total savings since September 2017 to \$800 million. These savings in FY19 have allowed us to absorb ongoing investment in better products and services, as well as higher compliance and control costs, while holding FY19 expenses broadly flat, consistent with our target. We continue to target cumulative cost savings of at least \$1 billion by 30 September 2020.

Driving a significant uplift in capability and innovation in our already leading SME franchise via our Best Business Bank initiative remains a key part of our accelerated investment. This is supporting continued robust SME business lending of 3.5% over FY19, well ahead of major bank peers. We are increasing the capacity of our bankers to support more complex customer needs with revenue per relationship banker 20% higher since FY17. For our small business customers we are providing better access to banking services via our scalable customer hubs open 7 days a week, plus fast digital access to unsecured lending via Quickbiz, now accounting for 47% of all new small business lending accounts compared with 20% in FY17.

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: Advice, Platforms, Asset Management and Retirement & 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. NAB continues to make progress towards a separation of MLC Wealth, targeting a public markets exit in FY20, together with exploration of alternative transaction structures and options. NAB 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.

Our final fully franked dividend of 83 cents per share (cps) has been held stable with the 2019 interim dividend, bringing the total for FY19 to 166 cps. This represents a 16% reduction compared with FY18, reflecting a more challenging operating environment with further regulatory change and earnings volatility including additional customer-related remediation, combined with higher levels of capital needing to be held. In conjunction with a decision to partially underwrite and offer a discount on the final 2019 dividend reinvestment plan, we are well placed to meet APRA's 'Unquestionably Strong' capital benchmark by 1 January 2020.






While a gap remains between where we are today and where we need to be, we are making progress with a broad program of reform to change the way we operate and ensure NAB meets customer and community expectations. We know this is essential if we are to achieve our vision of being Australia's leading bank, trusted by customers for exceptional service.

⁸ Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7.

⁹ For MLC Wealth superannuation and investment products.

NAB'S ROLE IN THE COMMUNITY

OUR ECONOMIC VALUE DISTRIBUTED

	SUPPLIERS	Payments made for the provision of utilities, goods and services.	\$5.1bn
	COMMUNITY INVESTMENT	Community partnerships, donations, grants, in kind support and volunteering.	\$57m
	SHAREHOLDERS	\$5 billion dollars in dividend payments to more than 573,000 shareholders.	\$5.0bn
	EMPLOYEES	Employee salaries, superannuation contributions and incentives.	\$4.3bn
	GOVERNMENTS	Payments made to governments in the form of the Bank Levy (\$383 million paid) plus \$2,725 million in income taxes, goods and services taxes, fringe benefit taxes and payroll taxes among others.	\$3.1bn
→			Total Economic Value Distributed¹ \$17.6bn

OUR INDIRECT ECONOMIC CONTRIBUTION

\$61bn in new home lending.
\$87bn in new business lending.

\$356bn in deposits managed for retail and business customers.

\$202bn in assets under management – helping customers plan and save for retirement.

1. Aligned to the Global Reporting Initiative standards

ECONOMIC OUTLOOK

“Australian economic growth has slowed and is expected to remain below trend in 2020 and 2021, while New Zealand growth has slowed to a modest level. Key dynamics for Australia continue to be weak growth in consumption and a decline in dwelling investment, partly offset by a near term rise in exports and strength in public spending. Business investment is also expected to provide support but there are risks around this outlook. Against this backdrop, the Australian unemployment rate is forecast to edge higher, with only modest support provided by recent fiscal policy changes in addition to the easing in monetary policy.”

NAB 2019 FULL YEAR RESULTS

GROUP PERFORMANCE RESULTS

Cash earnings is a key financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. NAB also uses cash earnings for its internal management reporting, as it better reflects what NAB considers to be the underlying performance of the Group. Cash earnings is not a statutory financial measure, is not presented in accordance with Australian Accounting Standards, and is not audited or reviewed in accordance with Australian Auditing Standards. Full detail on how cash earnings is defined, a discussion of non-cash earnings items and a full reconciliation of statutory net profit attributable to owners of NAB for the September 2019 full year is set out on pages 2 to 8 of the 2019 Full Year Results Announcement under the heading "Profit Reconciliation".

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Net interest income ¹⁰	13,614	13,467	1.1	6,838	6,776	0.9
Other operating income ¹⁰	4,814	4,759	1.2	2,372	2,442	(2.9)
Customer-related remediation ¹¹	(1,207)	(249)	large	(863)	(344)	large
Net operating income	17,221	17,977	(4.2)	8,347	8,874	(5.9)
Operating expenses ¹²	(8,155)	(8,126)	0.4	(4,100)	(4,055)	1.1
Customer-related remediation ¹¹	(364)	(111)	large	(244)	(120)	large
Capitalised software policy change ¹¹	(494)	-	large	(494)	-	large
Restructuring-related costs ¹¹	-	(755)	large	-	-	-
Underlying profit	8,208	8,985	(8.6)	3,509	4,699	(25.3)
Credit impairment charge	(919)	(779)	18.0	(470)	(449)	4.7
Cash earnings before tax and distributions	7,289	8,206	(11.2)	3,039	4,250	(28.5)
Income tax expense	(2,109)	(2,404)	(12.3)	(865)	(1,244)	(30.5)
Cash earnings before distributions	5,180	5,802	(10.7)	2,174	3,006	(27.7)
Distributions	(83)	(100)	(17.0)	(31)	(52)	(40.4)
Cash earnings	5,097	5,702	(10.6)	2,143	2,954	(27.5)
<i>Cash earnings (excluding large notable items)¹²</i>	<i>6,545</i>	<i>6,493</i>	<i>0.8</i>	<i>3,266</i>	<i>3,279</i>	<i>(0.4)</i>
Non-cash earnings items (after tax)	(10)	240	large	40	(50)	large
Net profit from continuing operations	5,087	5,942	(14.4)	2,183	2,904	(24.8)
Net loss after tax from discontinued operations ¹³	(289)	(388)	(25.5)	(79)	(210)	(62.4)
Net profit attributable to owners of NAB	4,798	5,554	(13.6)	2,104	2,694	(21.9)
Represented by:						
Business and Private Banking	2,840	2,911	(2.4)	1,378	1,462	(5.7)
Consumer Banking and Wealth	1,366	1,539	(11.2)	728	638	14.1
Corporate and Institutional Banking	1,508	1,541	(2.1)	727	781	(6.9)
New Zealand Banking	997	922	8.1	494	503	(1.8)
Corporate Functions and Other ¹²	(166)	(420)	(60.5)	(61)	(105)	(41.9)
Customer-related remediation	(1,100)	(261)	large	(775)	(325)	large
Capitalised software policy change	(348)	-	large	(348)	-	large
Restructuring-related costs	-	(530)	large	-	-	-
Cash earnings	5,097	5,702	(10.6)	2,143	2,954	(27.5)

SHAREHOLDER SUMMARY

	Year to			Half Year to		
	Sep 19	Sep 18	Sep 19 v Sep 18	Sep 19	Mar 19	Sep 19 v Mar 19
Group						
Dividend per share (cents)	166	198	(32)	83	83	-
Dividend payout ratio	91.1%	94.1%	(300 bps)	109.9%	77.4%	large
Statutory earnings per share (cents) – basic	168.6	201.3	(32.7)	73.0	95.9	(22.9)
Statutory earnings per share (cents) – diluted	164.4	194.0	(29.6)	71.8	92.1	(20.3)
Statutory earnings per share from continuing operations (cents) – basic	178.9	215.6	(36.7)	75.8	103.5	(27.7)
Statutory earnings per share from continuing operations (cents) – diluted	173.9	207.2	(33.3)	74.4	99.1	(24.7)
Cash earnings per share (cents) – basic	182.2	210.4	(28.2)	75.5	107.2	(31.7)
Cash earnings per share (cents) – diluted	177.0	202.4	(25.4)	74.1	102.5	(28.4)
Statutory return on equity	9.1%	11.2%	(210 bps)	7.8%	10.5%	(270 bps)
Cash return on equity (ROE)	9.9%	11.7%	(180 bps)	8.1%	11.7%	(360 bps)
Group (excluding large notable items)¹²						
Dividend payout ratio	70.9%	82.6%	large	72.1%	69.7%	240 bps
Statutory earnings per share (cents) – basic	229.5	230.5	(1.0)	114.6	114.9	(0.3)
Statutory earnings per share (cents) – diluted	220.7	220.9	(0.2)	110.3	109.6	0.7
Statutory earnings per share from continuing operations (cents) – basic	230.7	244.8	(14.1)	115.4	115.3	0.1
Statutory earnings per share from continuing operations (cents) – diluted	221.8	234.1	(12.3)	111.0	109.9	1.1
Cash earnings per share (cents) – basic	234.0	239.6	(5.6)	115.1	119.0	(3.9)
Cash earnings per share (cents) – diluted	224.9	229.3	(4.4)	110.7	113.3	(2.6)
Statutory return on equity	12.5%	12.8%	(30 bps)	12.3%	12.6%	(30 bps)
Cash return on equity (ROE)	12.7%	13.3%	(60 bps)	12.3%	13.0%	(70 bps)

¹⁰ Excluding customer-related remediation.

¹¹ Refer to NAB's 2019 Full Year Results Announcement Section 2 Large notable items for further information.

¹² Excluding large notable items customer-related remediation, capitalised software policy change and restructuring-related costs.

¹³ Refer to NAB's 2019 Full Year Announcement Note 14 Discontinued Operations for further information.

FOR FURTHER INFORMATION

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DISCLAIMER – FORWARD LOOKING STATEMENTS

This Result Summary and the 2019 Full Year Results Announcement contain statements that are, or may be deemed to be, forward looking statements. These forward looking statements may be identified by the use of forward looking terminology, including the terms "believe", "estimate", "plan", "project", "anticipate", "expect", "target", "intend", "likely", "may", "will", "could" or "should" or, in each case, their negative or other variations or other similar expressions, or by discussions of strategy, plans, objectives, targets, goals, future events or intentions. Indications of, and guidance on, future earnings and financial position and performance are also forward looking statements. You are cautioned not to place undue reliance on such forward looking statements. Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements.

This Result Summary and the 2019 Full Year Results Announcement describe certain initiatives relating to the Group's strategic agenda ("Program"), including certain forward looking statements. These statements are subject to a number of risks, assumptions and qualifications, including: (1) detailed business plans have not been developed for the entirety of the Program, and the full scope and cost of the Program may vary as plans are developed and third parties engaged; (2) the Group's ability to execute and manage the Program in a sequenced, controlled and effective manner and in accordance with the relevant project and business plan (once developed); (3) the Group's ability to execute productivity initiatives and realise operational synergies, cost savings and revenue benefits in accordance with the Program plan (including, in relation to CTI and ROE targets, the extension of improvements beyond the current Program plan); (4) the Group's ability to meet its internal net FTE reduction targets; (5) the Group's ability to recruit and retain FTE and contractors with the requisite skills and experience to deliver Program initiatives; (6) there being no significant change in the Group's financial performance or operating environment, including the economic conditions in Australia and New Zealand, changes to financial markets and the Group's ability to raise funding and the cost of such funding, increased competition, changes in interest rates and changes in customer behaviour; (7) there being no material change to law or regulation or changes to regulatory policy or interpretation, including relating to the capital and liquidity requirements of the Group; (8) for the purpose of calculating FTE cost savings and redundancy costs, the Group has assumed an average FTE cost based on Group-wide averages, and such costs are not calculated by reference to specific productivity initiatives or individual employee entitlements; and (9) NAB's proposed divestment of its wealth management businesses (excluding JBWere and nabtrade) may have an impact on the timing, scope and cost of the Program, however the impact cannot be quantified at this time.

Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained in the Group's Luxembourg Transparency Law disclosures released to the ASX on 2 May 2019 and the Group's Annual Financial Report for the 2019 financial year, which will be available at www.nab.com.au on 15 November 2019.

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Section 1

Profit Reconciliation

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Information about Cash Earnings and other Non-IFRS Measures

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

Non-IFRS Key Financial Performance Measures used by the Group

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

Explanation and Definition of Cash Earnings

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

The Group Results are presented on a cash earnings basis unless otherwise stated.

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 full year has been adjusted for the following:

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

Reconciliation to Statutory Net Profit

Section 4 of the 2019 Full Year Results Announcement contains the Group's income statement, including statutory net profit. The statutory net profit for the period is the sum of both net profit / (loss) from continuing operations and discontinued operations. Further details are set out in *Note 14 Discontinued operations* on page 77. The Group's audited financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and applicable Australian Accounting Standards, will be

published in its 2019 Annual Financial Report on 15 November 2019.

A reconciliation of cash earnings to statutory net profit is set out on page 3, and full reconciliations between statutory net profit and cash earnings are included in this section on pages 5-8.

Page 4 contains a description of non-cash earnings items for the September 2019 full year.

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.

Group Performance Results (Profit Reconciliation)

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Net interest income ⁽¹⁾	13,542	13,467	0.6	6,808	6,734	1.1
Other operating income ⁽¹⁾	3,679	4,510	(18.4)	1,539	2,140	(28.1)
Net operating income	17,221	17,977	(4.2)	8,347	8,874	(5.9)
Operating expenses ⁽¹⁾	(9,013)	(8,992)	0.2	(4,838)	(4,175)	15.9
Underlying profit	8,208	8,985	(8.6)	3,509	4,699	(25.3)
Credit impairment charge	(919)	(779)	18.0	(470)	(449)	4.7
Cash earnings before tax and distributions	7,289	8,206	(11.2)	3,039	4,250	(28.5)
Income tax expense	(2,109)	(2,404)	(12.3)	(865)	(1,244)	(30.5)
Cash earnings before distributions	5,180	5,802	(10.7)	2,174	3,006	(27.7)
Distributions	(83)	(100)	(17.0)	(31)	(52)	(40.4)
Cash earnings	5,097	5,702	(10.6)	2,143	2,954	(27.5)
<i>Non-cash earnings items (after tax):</i>						
Distributions	83	100	(17.0)	31	52	(40.4)
Fair value and hedge ineffectiveness	(23)	182	large	46	(69)	large
Amortisation of acquired intangible assets	(18)	(30)	(40.0)	(4)	(14)	(71.4)
MLC Wealth divestment separation costs	(52)	(12)	large	(33)	(19)	73.7
Net profit from continuing operations	5,087	5,942	(14.4)	2,183	2,904	(24.8)
Net loss after tax from discontinued operations ⁽¹⁾	(289)	(388)	(25.5)	(79)	(210)	(62.4)
Net profit attributable to owners of NAB	4,798	5,554	(13.6)	2,104	2,694	(21.9)

⁽¹⁾ Includes large notable items. Refer to Section 2 Large notable items for further information.

Non-cash Earnings Items

Distributions

Distributions relating to hybrid equity instruments are treated as an expense for cash earnings purposes and as a reduction in equity (dividend) for statutory reporting purposes. The distributions on other equity instruments are set out in Section 4, *Note 6 Dividends and distributions*. The effect of this in the September 2019 full year is to reduce cash earnings by \$83 million.

Fair Value and Hedge Ineffectiveness

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

In the September 2019 full year, there was a decrease in statutory profit of \$17 million (\$23 million after tax) from fair value and hedge ineffectiveness. The adoption of AASB 9 *Financial Instruments* from 1 April 2018 has significantly reduced the Group's volatility of statutory profit due to hedge accounted derivatives.

The decrease in the current period relates to mark-to-market losses on derivatives used to hedge the Group's long-term funding issuances and liquidity portfolio, where hedge accounting is not applied.

Amortisation of Acquired Intangible Assets

The amortisation of acquired intangibles represents the amortisation of intangible assets arising from the acquisition of controlled entities and associates such as management agreements and contracts in force. In the September 2019 full year, there was a decrease in statutory profit of \$25 million (\$18 million after tax) due to the amortisation of acquired intangible assets.

MLC Wealth Divestment Separation Costs

MLC Wealth divestment separation costs represent costs incurred in preparation for the divestment of the Group's Advice, Superannuation & Investment Platforms and Asset Management businesses, which is expected to occur in the 2020 financial year. In the September 2019 full year, there was a decrease in statutory profit of \$74 million (\$52 million after tax) due to MLC Wealth divestment separation costs.

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

	Statutory net profit from continuing operations	Wealth adj. ⁽¹⁾	Distri- butions	Fair value and hedge ineffec.	Amortisation of acquired intangible assets	MLC Wealth divestment separation costs	Cash earnings
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Year ended 30 September 2019							
Net interest income ⁽²⁾	13,558	(11)	-	(5)	-	-	13,542
Other operating income ⁽²⁾	4,373	(721)	-	14	13	-	3,679
Net operating income	17,931	(732)	-	9	13	-	17,221
Operating expenses ⁽²⁾	(9,827)	728	-	-	12	74	(9,013)
Profit / (loss) before credit impairment charge	8,104	(4)	-	9	25	74	8,208
Credit impairment (charge) / write-back	(927)	-	-	8	-	-	(919)
Profit / (loss) before tax	7,177	(4)	-	17	25	74	7,289
Income tax (expense) / benefit	(2,087)	1	-	6	(7)	(22)	(2,109)
Net profit / (loss) on continuing operations before distributions and non-controlling interest	5,090	(3)	-	23	18	52	5,180
Net profit / (loss) attributable to non-controlling interest in controlled entities	(3)	3	-	-	-	-	-
Distributions	-	-	(83)	-	-	-	(83)
Net profit / (loss) attributable to owners of NAB from continuing operations	5,087	-	(83)	23	18	52	5,097

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

⁽²⁾ Includes large notable items. Refer to Section 2 Large notable items for further information.

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

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

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

⁽²⁾ Includes large notable items. Refer to Section 2 Large notable items for further information.

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

	Statutory net profit from continuing operations	Wealth adj. ⁽¹⁾	Distri- butions	Fair value and hedge ineffec.	Amortisation of acquired intangible assets	MLC Wealth divestment separation costs	Cash earnings
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Half Year ended 30 September 2019							
Net interest income ⁽²⁾	6,817	(6)	-	(3)	-	-	6,808
Other operating income ⁽²⁾	1,945	(347)	-	(65)	6	-	1,539
Net operating income	8,762	(353)	-	(68)	6	-	8,347
Operating expenses ⁽²⁾	(5,236)	349	-	-	3	46	(4,838)
Profit / (loss) before credit impairment charge	3,526	(4)	-	(68)	9	46	3,509
Credit impairment (charge) / write-back	(473)	-	-	3	-	-	(470)
Profit / (loss) before tax	3,053	(4)	-	(65)	9	46	3,039
Income tax (expense) / benefit	(868)	2	-	19	(5)	(13)	(865)
Net profit / (loss) on continuing operations before distributions and non-controlling interest	2,185	(2)	-	(46)	4	33	2,174
Net profit / (loss) attributable to non-controlling interest in controlled entities	(2)	2	-	-	-	-	-
Distributions	-	-	(31)	-	-	-	(31)
Net profit / (loss) attributable to owners of NAB from continuing operations	2,183	-	(31)	(46)	4	33	2,143

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

⁽²⁾ Includes large notable items. Refer to Section 2 Large notable items for further information.

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

	Statutory net profit from continuing operations	Wealth adj. ⁽¹⁾	Distri- butions	Fair value and hedge ineffec.	Amortisation of acquired intangible assets	MLC Wealth divestment separation costs	Cash earnings
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Half Year ended 31 March 2019							
Net interest income ⁽²⁾	6,741	(5)	-	(2)	-	-	6,734
Other operating income ⁽²⁾	2,428	(374)	-	79	7	-	2,140
Net operating income	9,169	(379)	-	77	7	-	8,874
Operating expenses ⁽²⁾	(4,591)	379	-	-	9	28	(4,175)
Profit before credit impairment charge	4,578	-	-	77	16	28	4,699
Credit impairment (charge) / write-back	(454)	-	-	5	-	-	(449)
Profit before tax	4,124	-	-	82	16	28	4,250
Income tax expense	(1,219)	(1)	-	(13)	(2)	(9)	(1,244)
Net profit / (loss) from continuing operations before distributions and non-controlling interest	2,905	(1)	-	69	14	19	3,006
Net profit / (loss) attributable to non-controlling interest in controlled entities	(1)	1	-	-	-	-	-
Distributions	-	-	(52)	-	-	-	(52)
Net profit / (loss) attributable to owners of NAB from continuing operations	2,904	-	(52)	69	14	19	2,954

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

⁽²⁾ Includes large notable items. Refer to Section 2 Large notable items for further information.

Section 2

Group Review

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Group Performance Results

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Net interest income ⁽¹⁾	13,614	13,467	1.1	6,838	6,776	0.9
Other operating income ⁽¹⁾	4,814	4,759	1.2	2,372	2,442	(2.9)
Customer-related remediation ⁽²⁾	(1,207)	(249)	large	(863)	(344)	large
Net operating income	17,221	17,977	(4.2)	8,347	8,874	(5.9)
Operating expenses ⁽³⁾	(8,155)	(8,126)	0.4	(4,100)	(4,055)	1.1
Customer-related remediation ⁽²⁾	(364)	(111)	large	(244)	(120)	large
Capitalised software policy change ⁽²⁾	(494)	-	large	(494)	-	large
Restructuring-related costs ⁽²⁾	-	(755)	large	-	-	-
Underlying profit	8,208	8,985	(8.6)	3,509	4,699	(25.3)
Credit impairment charge	(919)	(779)	18.0	(470)	(449)	4.7
Cash earnings before tax and distributions	7,289	8,206	(11.2)	3,039	4,250	(28.5)
Income tax expense	(2,109)	(2,404)	(12.3)	(865)	(1,244)	(30.5)
Cash earnings before distributions	5,180	5,802	(10.7)	2,174	3,006	(27.7)
Distributions	(83)	(100)	(17.0)	(31)	(52)	(40.4)
Cash earnings	5,097	5,702	(10.6)	2,143	2,954	(27.5)
Cash earnings (excluding large notable items)⁽²⁾	6,545	6,493	0.8	3,266	3,279	(0.4)
<i>Non-cash earnings items (after tax):</i>						
Distributions	83	100	(17.0)	31	52	(40.4)
Fair value and hedge ineffectiveness	(23)	182	large	46	(69)	large
Amortisation of acquired intangible assets	(18)	(30)	(40.0)	(4)	(14)	(71.4)
MLC Wealth divestment separation costs	(52)	(12)	large	(33)	(19)	73.7
Net profit from continuing operations	5,087	5,942	(14.4)	2,183	2,904	(24.8)
Net loss after tax from discontinued operations	(289)	(388)	(25.5)	(79)	(210)	(62.4)
Net profit attributable to owners of NAB	4,798	5,554	(13.6)	2,104	2,694	(21.9)
Represented by:						
Business and Private Banking	2,840	2,911	(2.4)	1,378	1,462	(5.7)
Consumer Banking and Wealth	1,366	1,539	(11.2)	728	638	14.1
Corporate and Institutional Banking	1,508	1,541	(2.1)	727	781	(6.9)
New Zealand Banking	997	922	8.1	494	503	(1.8)
Corporate Functions and Other ⁽³⁾	(166)	(420)	(60.5)	(61)	(105)	(41.9)
Customer-related remediation ⁽²⁾	(1,100)	(261)	large	(775)	(325)	large
Capitalised software policy change ⁽²⁾	(348)	-	large	(348)	-	large
Restructuring-related costs ⁽²⁾	-	(530)	large	-	-	-
Cash earnings	5,097	5,702	(10.6)	2,143	2,954	(27.5)

(1) Excluding customer-related remediation.

(2) Refer to Section 2 Large notable items for further information.

(3) Excluding large notable items.

Group Performance Results (continued)

Large Notable Items

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Net interest income						
Customer-related remediation	(72)	-	large	(30)	(42)	(28.6)
Other operating income						
Customer-related remediation	(1,135)	(249)	large	(833)	(302)	large
Net operating income	(1,207)	(249)	large	(863)	(344)	large
Operating expenses						
Customer-related remediation	(364)	(111)	large	(244)	(120)	large
Capitalised software policy change	(494)	-	large	(494)	-	large
Restructuring-related costs	-	(755)	large	-	-	-
Cash deficit before tax	(2,065)	(1,115)	85.2	(1,601)	(464)	large
Income tax benefit	617	324	90.4	478	139	large
Cash deficit	(1,448)	(791)	83.1	(1,123)	(325)	large
Net loss after tax from discontinued operations	(257)	(53)	large	(57)	(200)	(71.5)
Net loss attributable to owners of NAB	(1,705)	(844)	large	(1,180)	(525)	large

Customer-related remediation

In the September 2019 full year, the Group recognised charges for customer-related remediation matters of \$1,100 million (\$1,571 million before tax) in cash earnings. Charges of \$261 million (\$360 million before tax) were recognised in cash earnings in the September 2018 full year. 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 of \$257 million (\$367 million before tax) were recognised in discontinued operations in the September 2019 full year, with \$53 million (\$75 million before tax) recognised in discontinued operations in the September 2018 full year.

In the September 2019 half year, the Group recognised charges of \$775 million (\$1,107 million before tax) in cash earnings. Charges of \$325 million (\$464 million before tax) were recognised in cash earnings in the March 2019 half year. Charges of \$1,107 million were recognised as follows:

- \$30 million in net interest income
- \$833 million in other operating income
- \$244 million in operating expenses.

Charges of \$57 million (\$82 million before tax) were recognised in discontinued operations in the September 2019 half year, with \$200 million (\$285 million before tax) recognised in discontinued operations in the March 2019 half year.

The customer-related remediation matters in the September 2019 full year 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

In the September 2019 full year, the Group made a change to the application of the software capitalisation policy by increasing the threshold for capitalisation of software from \$0.5 million to \$2 million, which reduced cash earnings by \$348 million (\$494 million before tax) as a result of accelerated amortisation.

Restructuring-related costs

In the September 2018 full year, the Group recognised restructuring-related costs of \$530 million (\$755 million before tax) in cash earnings to deliver on the acceleration of its strategic agenda to enhance the customer experience and simplify its business. The costs of \$755 million comprise \$540 million of personnel, outplacement and project management costs, \$146 million of software write-offs and \$69 million of property rationalisation costs.

Group Performance Results (continued)

Group Performance Results (Reconciliation of Large Notable Items)

	Year to						
	Sep 19	Large Notable Items	Sep 19 ex Large Notable Items	Sep 18	Large Notable Items	Sep 18 ex Large Notable Items	Sep 19 v Sep 18 ex Large Notable Items
	\$m	\$m	\$m	\$m	\$m	\$m	%
Net interest income	13,542	(72)	13,614	13,467	-	13,467	1.1
Other operating income	3,679	(1,135)	4,814	4,510	(249)	4,759	1.2
Net operating income	17,221	(1,207)	18,428	17,977	(249)	18,226	1.1
Operating expenses	(9,013)	(858)	(8,155)	(8,992)	(866)	(8,126)	0.4
Underlying profit	8,208	(2,065)	10,273	8,985	(1,115)	10,100	1.7
Credit impairment charge	(919)	-	(919)	(779)	-	(779)	18.0
Cash earnings before tax and distributions	7,289	(2,065)	9,354	8,206	(1,115)	9,321	0.4
Income tax expense	(2,109)	617	(2,726)	(2,404)	324	(2,728)	(0.1)
Cash earnings before distributions	5,180	(1,448)	6,628	5,802	(791)	6,593	0.5
Distributions	(83)	-	(83)	(100)	-	(100)	(17.0)
Cash earnings	5,097	(1,448)	6,545	5,702	(791)	6,493	0.8

	Half Year to						
	Sep 19	Large Notable Items	Sep 19 ex Large Notable Items	Mar 19	Large Notable Items	Mar 19 ex Large Notable Items	Sep 19 v Mar 19 ex Large Notable Items
	\$m	\$m	\$m	\$m	\$m	\$m	%
Net interest income	6,808	(30)	6,838	6,734	(42)	6,776	0.9
Other operating income	1,539	(833)	2,372	2,140	(302)	2,442	(2.9)
Net operating income	8,347	(863)	9,210	8,874	(344)	9,218	(0.1)
Operating expenses	(4,838)	(738)	(4,100)	(4,175)	(120)	(4,055)	1.1
Underlying profit	3,509	(1,601)	5,110	4,699	(464)	5,163	(1.0)
Credit impairment charge	(470)	-	(470)	(449)	-	(449)	4.7
Cash earnings before tax and distributions	3,039	(1,601)	4,640	4,250	(464)	4,714	(1.6)
Income tax expense	(865)	478	(1,343)	(1,244)	139	(1,383)	(2.9)
Cash earnings before distributions	2,174	(1,123)	3,297	3,006	(325)	3,331	(1.0)
Distributions	(31)	-	(31)	(52)	-	(52)	(40.4)
Cash earnings	2,143	(1,123)	3,266	2,954	(325)	3,279	(0.4)

Group Performance Results (continued)

Shareholder Summary

	Year to			Half Year to		
	Sep 19	Sep 18	Sep 19 v Sep 18	Sep 19	Mar 19	Sep 19 v Mar 19
Group						
Dividend per share (cents)	166	198	(32)	83	83	-
Dividend payout ratio	91.1%	94.1%	(300 bps)	109.9%	77.4%	large
Statutory earnings per share (cents) - basic	168.6	201.3	(32.7)	73.0	95.9	(22.9)
Statutory earnings per share (cents) - diluted	164.4	194.0	(29.6)	71.8	92.1	(20.3)
Statutory earnings per share from continuing operations (cents) - basic	178.9	215.6	(36.7)	75.8	103.5	(27.7)
Statutory earnings per share from continuing operations (cents) - diluted	173.9	207.2	(33.3)	74.4	99.1	(24.7)
Cash earnings per share (cents) - basic	182.2	210.4	(28.2)	75.5	107.2	(31.7)
Cash earnings per share (cents) - diluted	177.0	202.4	(25.4)	74.1	102.5	(28.4)
Statutory return on equity	9.1%	11.2%	(210 bps)	7.8%	10.5%	(270 bps)
Cash return on equity (ROE)	9.9%	11.7%	(180 bps)	8.1%	11.7%	(360 bps)
Group (excluding large notable items)⁽¹⁾						
Dividend payout ratio	70.9%	82.6%	large	72.1%	69.7%	240 bps
Statutory earnings per share (cents) - basic	229.5	230.5	(1.0)	114.6	114.9	(0.3)
Statutory earnings per share (cents) - diluted	220.7	220.9	(0.2)	110.3	109.6	0.7
Statutory earnings per share from continuing operations (cents) - basic	230.7	244.8	(14.1)	115.4	115.3	0.1
Statutory earnings per share from continuing operations (cents) - diluted	221.8	234.1	(12.3)	111.0	109.9	1.1
Cash earnings per share (cents) - basic	234.0	239.6	(5.6)	115.1	119.0	(3.9)
Cash earnings per share (cents) - diluted	224.9	229.3	(4.4)	110.7	113.3	(2.6)
Statutory return on equity	12.5%	12.8%	(30 bps)	12.3%	12.6%	(30 bps)
Cash return on equity (ROE)	12.7%	13.3%	(60 bps)	12.3%	13.0%	(70 bps)

⁽¹⁾ Refer to Section 2 Large notable items for further information.

Group Performance Results (continued)

Key Performance Indicators

	Year to			Half Year to		
	Sep 19	Sep 18	Sep 19 v Sep 18	Sep 19	Mar 19	Sep 19 v Mar 19
Group						
Cash earnings on average assets	0.61%	0.71%	(10 bps)	0.51%	0.71%	(20 bps)
Cash earnings on average risk-weighted assets	1.26%	1.48%	(22 bps)	1.05%	1.49%	(44 bps)
Cash earnings per average FTE (\$'000)	150	169	(11.2%)	125	176	(29.0%)
Jaws	(4.4%)	(17.3%)	large	(21.8%)	1.6%	large
Cost to income (CTI) ratio	52.3%	50.0%	230 bps	58.0%	47.0%	large
Net interest margin	1.78%	1.85%	(7 bps)	1.78%	1.79%	(1 bp)
Group (excluding large notable items)⁽¹⁾						
Cash earnings on average assets	0.78%	0.81%	(3 bps)	0.78%	0.79%	(1 bp)
Cash earnings on average risk-weighted assets	1.62%	1.68%	(6 bps)	1.60%	1.65%	(5 bps)
Cash earnings per average FTE (\$'000)	193	192	0.5%	190	196	(3.1%)
Jaws	0.7%	(4.6%)	530 bps	(1.2%)	2.9%	(410 bps)
Cost to income (CTI) ratio	44.3%	44.6%	(30 bps)	44.5%	44.0%	50 bps
Net interest margin	1.79%	1.85%	(6 bps)	1.79%	1.80%	(1 bp)
Capital						
Common Equity Tier 1 ratio	10.38%	10.20%	18 bps	10.38%	10.40%	(2 bps)
Tier 1 capital ratio	12.36%	12.38%	(2 bps)	12.36%	12.45%	(9 bps)
Total capital ratio	14.68%	14.12%	56 bps	14.68%	14.00%	68 bps
Risk-weighted assets (\$bn)	415.8	389.7	6.7%	415.8	403.2	3.1%
Volumes (\$bn)						
Gross loans and acceptances	601.4	585.6	2.7%	601.4	601.3	-
Average interest earning assets	758.8	726.7	4.4%	763.4	754.3	1.2%
Total average assets	835.9	807.0	3.6%	839.9	829.1	1.3%
Total customer deposits	424.6	409.0	3.8%	424.6	421.7	0.7%
Asset quality						
90+ days past due and gross impaired assets to gross loans and acceptances	0.93%	0.71%	22 bps	0.93%	0.79%	14 bps
Collective provision to credit risk-weighted assets	0.96%	0.92%	4 bps	0.96%	0.94%	2 bps
Specific provision to gross impaired assets ⁽²⁾	39.7%	44.4%	(470 bps)	39.7%	45.8%	(610 bps)
Other						
Funds under management and administration (FUM/A) (spot) (\$bn) ⁽³⁾	150.2	144.7	3.8%	150.2	143.2	4.9%
Assets under management (AUM) (spot) (\$bn) ⁽³⁾	201.5	206.7	(2.5%)	201.5	202.9	(0.7%)
Full-time equivalent employees (FTE) (spot)	34,370	33,283	3.3%	34,370	33,790	1.7%
Full-time equivalent employees (FTE) (average)	33,950	33,747	0.6%	34,258	33,620	1.9%

⁽¹⁾ Refer to Section 2 Large notable items for further information.

⁽²⁾ September 2018 excludes \$2 million (NZ\$3 million) of New Zealand Banking dairy exposures that were assessed as no loss based on security held. Collective provisions are held against these loans.

⁽³⁾ FUM/A and AUM are presented in two separate disclosures that represent all managed funds and assets from which the Group derives revenue. Certain items will be represented in both FUM/A and AUM meaning the two should not be summed.

Review of Group Performance Results

September 2019 v September 2018

Net profit attributable to owners of NAB (statutory net profit) decreased by \$756 million or 13.6%. Excluding the impact of discontinued operations, net profit attributable to owners of NAB (statutory net profit) decreased by \$855 million or 14.4%. Discontinued operations reflect losses relating to customer-related remediation and additional costs associated with the life insurance business sale.

Cash earnings decreased by \$605 million or 10.6% including an increase in large notable items of \$657 million. Excluding these items, cash earnings increased by \$52 million or 0.8%.

Cash earnings on average risk-weighted assets decreased by 22 basis points reflecting the impact of large notable items. Excluding these items, cash earnings on average risk-weighted assets decreased by 6 basis points due to higher average risk-weighted assets.

Net interest income increased by \$75 million or 0.6%, 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 September 2019 full year. Excluding these movements, the underlying increase of \$280 million or 2.1% 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 operating income decreased by \$831 million or 18.4%, 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 \$78 million or 1.6% was mainly driven by lower income in Wealth and Markets. This was partially offset by higher NAB risk management income in Treasury.

Operating expenses increased by \$21 million or 0.2%. Excluding a decrease of \$8 million in large notable items, operating expenses increased by \$29 million or 0.4%, driven largely by foreign exchange movements. There has been continued investment in technology with associated amortisation charges, increased spend to uplift customer experience and strengthen the compliance and control environment, and the impact of annual salary increases. This was largely offset 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.

Credit impairment charge increased by \$140 million or 18.0% 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.

September 2019 v March 2019

Net profit attributable to owners of NAB (statutory net profit) decreased by \$590 million or 21.9%. Excluding the impact of discontinued operations, net profit attributable to owners of NAB (statutory net profit) decreased by \$721 million or 24.8%. Discontinued operations reflect losses relating to customer-related remediation and additional costs associated with the life insurance business sale.

Cash earnings decreased by \$811 million or 27.5% including an increase in large notable items of \$798 million. Excluding these items, cash earnings decreased by \$13 million or 0.4%.

Cash earnings on average risk-weighted assets decreased by 44 basis points reflecting the impact of large notable items. Excluding these items, cash earnings on average risk-weighted assets decreased by 5 basis points due to a decrease in cash earnings and higher average risk-weighted assets.

Net interest income increased by \$74 million or 1.1%, including a decrease of \$34 million which was offset by movements in economic hedges in other operating income and a decrease of \$12 million in customer-related remediation. Excluding these movements, the underlying increase of \$96 million or 1.4% was driven by growth in business lending volumes, the impact of the prior period repricing in the housing lending portfolio and lower funding and liquidity costs. 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 lower earnings on capital.

Other operating income decreased by \$601 million or 28.1%, including an increase of \$34 million which was offset by movements in economic hedges in net interest income and an increase of \$531 million in customer-related remediation. Excluding these movements, the underlying decrease of \$104 million or 4.3% was mainly due to lower NAB risk management income in Markets and Treasury, partially offset by higher sales of customer risk management products.

Operating expenses increased by \$663 million or 15.9%. Excluding an increase of \$618 million in large notable items, operating expenses increased by \$45 million or 1.1%. This was driven by continued investment in technology with associated amortisation charges, increased spend to uplift customer experience and strengthen the compliance and control environment, and the impact of annual salary increases. This was partially offset by productivity benefits achieved through continued simplification of the Group's operations and reduction in third party spend, combined with lower performance-based compensation.

Credit impairment charge increased by \$21 million or 4.7% mainly driven by new and increased specific credit impairment charges raised for the business lending portfolios in Australia and New Zealand, partially offset by lower collective credit impairment charges.

Net Interest Income

	Year to			Half Year to		
	Sep 19	Sep 18	Sep 19 v Sep 18 %	Sep 19	Mar 19	Sep 19 v Mar 19 %
Net interest income (\$m) ⁽¹⁾	13,614	13,467	1.1	6,838	6,776	0.9
Customer-related remediation (\$m) ⁽²⁾	(72)	-	large	(30)	(42)	(28.6)
Average interest earning assets (\$bn)	758.8	726.7	4.4	763.4	754.3	1.2
Net interest margin (%) ⁽³⁾	1.78	1.85	(7 bps)	1.78	1.79	(1 bp)

Net Interest Income - Contribution to Net Movement⁽¹⁾

\$m



⁽¹⁾ Corporate Functions, Treasury & Other includes eliminations. Refer to page 48 for the definition of Corporate Functions.

September 2019 v September 2018

Net interest income excluding customer-related remediation increased by \$147 million or 1.1%. This includes a decrease of \$133 million which was offset by movements in economic hedges in other operating income. Excluding this movement, the underlying increase of \$280 million or 2.1% was due to:

- Growth in housing and business lending volumes, reflecting the Group's focus on priority segments in Australia and New Zealand.
- The impact of current period repricing in the housing lending portfolio and the full impact of prior period repricing in the business lending portfolio in Australia.

The underlying increase was partially offset by:

- Competitive pressures and product mix impacts as a result of a change in customer preferences (switching from interest only to principal and interest home loans) affecting housing lending margins, combined with regulatory changes on unsecured lending.
- Increased funding and liquidity costs, reflecting higher wholesale funding costs and a lower earnings rate on non-interest-bearing deposits, due to the low interest rate environment.

September 2019 v March 2019

Net interest income excluding customer-related remediation increased by \$62 million or 0.9%. This includes a decrease of \$34 million which was offset by movements in economic hedges in other operating income. Excluding this movement, the underlying increase of \$96 million or 1.4% was due to:

- Growth in business lending volumes, reflecting the Group's focus on priority segments in Australia and New Zealand.
- Decreased funding and liquidity costs, reflecting lower wholesale funding costs, offset by higher term deposits costs and a lower earnings rate on non-interest-bearing deposits due to the low interest rate environment.
- Full impact of prior period repricing in the housing lending portfolio in Australia.

The underlying increase was partially offset by:

- Competitive pressures and product mix impacts as a result of a change in customer preferences (switching from interest only to principal and interest home loans) affecting housing lending margins.
- Lower earnings on capital driven by a decline in the earnings rate over the period, partially offset by an increase in the level of capital held.

⁽¹⁾ Excluding customer-related remediation.

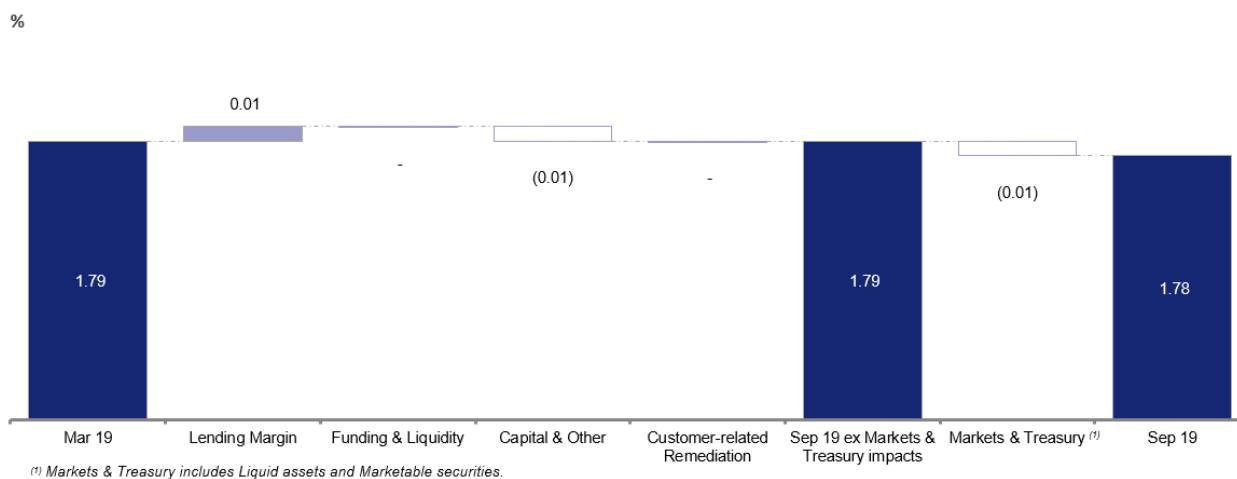
⁽²⁾ Refer to Section 2 Large notable items for further information.

⁽³⁾ Including customer-related remediation.

Net Interest Margin⁽¹⁾

	Year to			Half Year to		
	Sep 19 %	Sep 18 %	Sep 19 v Sep 18	Sep 19 %	Mar 19 %	Sep 19 v Mar 19
Group net interest margin	1.78	1.85	(7 bps)	1.78	1.79	(1 bp)
Business and Private Banking	2.93	2.95	(2 bps)	2.92	2.94	(2 bps)
Consumer Banking and Wealth	1.90	2.00	(10 bps)	1.96	1.84	12 bps
Corporate and Institutional Banking	0.71	0.79	(8 bps)	0.69	0.73	(4 bps)
New Zealand Banking	2.25	2.27	(2 bps)	2.20	2.30	(10 bps)

Group Net Interest Margin Movement



September 2019 v September 2018

The Group's **net interest margin** decreased by 7 basis points. This includes a decrease of 2 basis points in Markets and Treasury due to lower net interest income from Markets hedging activities offset in other operating income and a decrease of 1 basis point due to customer-related remediation. Excluding these movements, the underlying decrease of 4 basis points was due to:

- A decrease of 3 basis points in lending margin driven by lower housing lending margins due to competitive pressures and a change in customer preferences (switching from interest only to principal and interest home loans), combined with regulatory changes on unsecured lending, partially offset by repricing benefits.
- A decrease of 1 basis point in funding and liquidity costs driven by higher wholesale funding costs and a lower earnings rate on non-interest-bearing deposits, due to the low interest rate environment.

September 2019 v March 2019

The Group's **net interest margin** decreased by 1 basis point. This includes a decrease of 1 basis point in Markets and Treasury due to lower net interest income from Treasury hedging activities offset in other operating income. Excluding this movement, the underlying margin was flat due to:

- An increase of 1 basis point in lending margin driven by the full impact of prior period repricing, partially offset by competitive pressures and product mix impacts as a result of a change in customer preferences (switching from interest only to principal and interest home loans) in the housing lending portfolio.
- Flat funding and liquidity driven by lower wholesale funding costs, offset by higher term deposits costs and a lower earnings rate on non-interest-bearing deposits due to the low interest rate environment.

This was offset by:

- A decrease of 1 basis point driven by lower earnings on capital due to the low interest rate environment partially offset by an increase in the level of capital held.

⁽¹⁾ Including customer-related remediation.

Other Operating Income

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Fees and commissions	2,153	2,185	(1.5)	1,078	1,075	0.3
Trading income	1,450	1,266	14.5	698	752	(7.2)
Other	1,211	1,308	(7.4)	596	615	(3.1)
Customer-related remediation ⁽¹⁾	(1,135)	(249)	large	(833)	(302)	large
Total other operating income	3,679	4,510	(18.4)	1,539	2,140	(28.1)

September 2019 v September 2018

Other operating income decreased by \$831 million or 18.4%. Excluding customer-related remediation, other operating income increased by \$55 million or 1.2%.

Fees and commissions decreased by \$32 million or 1.5%. The decrease was largely due to the reduction or removal of certain fees, combined with lower interchange income driven by lower card volumes, and higher scheme charges reflecting the increased use of cards for low-value payments.

Trading income increased by \$184 million or 14.5%. This includes an increase of \$133 million due to movements in economic hedges, offset in net interest income. The underlying increase of \$51 million was mainly due to higher NAB risk management income in Treasury, partially offset by lower Markets income.

Other income decreased by \$97 million or 7.4%. The decrease was mainly due to 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.

September 2019 v March 2019

Other operating income decreased by \$601 million or 28.1%. Excluding customer-related remediation, other operating income decreased by \$70 million or 2.9%.

Fees and commissions increased by \$3 million or 0.3%. The increase was mainly due to higher fee income in New Zealand Banking, and seasonally higher housing lending fees in Consumer Banking. This was partially offset by higher scheme charges reflecting the increased use of cards for low-value payments.

Trading income decreased by \$54 million or 7.2%. This includes an increase of \$34 million due to movements in economic hedges, offset in net interest income. The underlying decrease of \$88 million was mainly due to lower NAB risk management income in Markets and Treasury, partially offset by higher sales of customer risk management products.

Other income decreased by \$19 million or 3.1%. The decrease was mainly due to 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. This was partially offset by higher JBWere income in Business and Private Banking.

⁽¹⁾ Refer to Section 2 Large notable items for further information.

Markets and Treasury Income

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Net interest income	267	370	(27.8)	106	161	(34.2)
Other operating income	1,511	1,368	10.5	732	779	(6.0)
Total Markets and Treasury income	1,778	1,738	2.3	838	940	(10.9)
Customer risk management ⁽¹⁾						
FX	499	492	1.4	266	233	14.2
Rates	275	293	(6.1)	136	139	(2.2)
Total Customer risk management income	774	785	(1.4)	402	372	8.1
NAB risk management ⁽²⁾						
Markets	448	460	(2.6)	188	260	(27.7)
Treasury	577	494	16.8	265	312	(15.1)
Total NAB risk management income	1,025	954	7.4	453	572	(20.8)
Derivative valuation adjustment ⁽³⁾	(21)	(1)	large	(17)	(4)	large
Total Markets and Treasury income	1,778	1,738	2.3	838	940	(10.9)
Average Markets traded market risk Value at Risk (VaR) ⁽⁴⁾	7.9	8.2	(3.7)	9.3	6.5	43.1

September 2019 v September 2018

Markets and Treasury income increased by \$40 million or 2.3% due primarily to higher NAB risk management income.

Customer risk management income decreased by \$11 million or 1.4%, driven primarily by lower interest rate risk management sales.

NAB risk management income increased by \$71 million or 7.4%, driven primarily by Treasury risk management income increasing as a result of average credit spreads tightening.

September 2019 v March 2019

Markets and Treasury income decreased by \$102 million or 10.9% due to lower NAB risk management income.

Customer risk management income increased by \$30 million or 8.1%, driven by higher foreign exchange risk management sales.

NAB risk management income decreased by \$119 million or 20.8% due to lower Markets income in rates risk management and lower Treasury income as a result of average credit spread movements.

⁽¹⁾ Customer risk management comprises other operating income and reflects customer risk management in respect of Australian Banking (Consumer Banking and Wealth, Business and Private Banking, and Corporate and Institutional Banking) and New Zealand Banking. Comparative information has been restated to align to the presentation in the current period to include inception derivative valuation adjustments, previously included as part of derivative valuation adjustment.

⁽²⁾ NAB risk management comprises net interest income and other operating income and is defined as management of interest rate risk in the banking book, wholesale funding and liquidity requirements and trading market risk to support the Group's franchises. Markets forms part of Corporate and Institutional Banking market revenue. Treasury forms part of Corporate Functions and Other revenue.

⁽³⁾ Derivative valuation adjustments, which include credit valuation adjustments and funding valuations adjustments, are shown net of hedging costs or benefits. Comparative information has been restated to align to the presentation in the current period to exclude inception derivative valuation adjustments which are now netted against Customer risk management income.

⁽⁴⁾ Excludes the impact of hedging activities related to derivative valuation adjustments.

Operating Expenses

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Personnel expenses	4,329	4,847	(10.7)	2,151	2,178	(1.2)
Occupancy-related expenses ⁽¹⁾	546	589	(7.3)	275	271	1.5
General expenses ⁽¹⁾	4,138	3,556	16.4	2,412	1,726	39.7
Total operating expenses	9,013	8,992	0.2	4,838	4,175	15.9

Operating Expenses (excluding large notable items)⁽²⁾

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Personnel expenses	4,329	4,420	(2.1)	2,151	2,178	(1.2)
Occupancy-related expenses ⁽¹⁾	546	554	(1.4)	275	271	1.5
General expenses ⁽¹⁾	3,280	3,152	4.1	1,674	1,606	4.2
Total operating expenses	8,155	8,126	0.4	4,100	4,055	1.1

September 2019 v September 2018

Operating expenses increased by \$21 million or 0.2%. Excluding large notable items and FX impacts of \$48 million, operating expenses decreased by \$19 million or 0.2%.

Personnel expenses excluding large notable items decreased by \$91 million or 2.1%. The decrease was driven by productivity benefits achieved through continued simplification of the Group's operations, combined with lower performance-based compensation. This was largely offset by continued investment in technology, increased spend to strengthen the compliance and control environment and annual salary increases.

Occupancy-related expenses excluding large notable items decreased by \$8 million or 1.4%. The decrease was driven by productivity benefits due to the closure of certain branches and lease renegotiations.

General expenses excluding large notable items increased by \$128 million or 4.1%. The increase was driven by continued investment in technology and associated amortisation charges, combined with increased spend to uplift customer experience and strengthen the compliance and control environment. This was partially offset by productivity benefits achieved through reduction in third party spend, and lower legal costs associated with the Royal Commission.

September 2019 v March 2019

Operating expenses increased by \$663 million or 15.9%. Excluding large notable items, operating expenses increased by \$45 million or 1.1%.

Personnel expenses decreased by \$27 million or 1.2%. The decrease was driven by productivity benefits achieved through continued simplification of the Group's operations, combined with lower performance-based compensation. This was partially offset by continued investment in technology, increased spend to strengthen the compliance and control environment and annual salary increases.

Occupancy-related expenses increased by \$4 million or 1.5%.

General expenses excluding large notable items increased by \$68 million or 4.2%. The increase was driven by continued investment in technology and associated amortisation charges, combined with increased spend to uplift customer experience and strengthen the compliance and control environment. This was partially offset by productivity benefits achieved through reduction in third party spend.

⁽¹⁾ Comparative information has been restated to align to the presentation in the current period to reflect a reallocation of depreciation expense between 'occupancy' and 'general' expenses.

⁽²⁾ Refer to Section 2 Large notable items and Section 4, Note 4 Operating expenses for further information.

Investment Spend

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Infrastructure	697	542	28.6	424	273	55.3
Compliance and risk	470	456	3.1	259	211	22.7
Customer experience, efficiency and sustainable revenue	518	521	(0.6)	287	231	24.2
Total investment spend	1,685	1,519	10.9	970	715	35.7

Investment spend is expenditure on initiatives designed to enhance the customer experience, comply with legal and regulatory requirements, and improve capabilities and efficiencies in the Group's business processes. In November 2017, the Group announced an acceleration of its strategy and investment spend profile. Investment spend for the September 2019 full year was \$1,685 million, an increase of \$166 million or 10.9% compared to the September 2018 full year.

September 2019 v September 2018

Investment in **infrastructure** initiatives increased by \$155 million or 28.6%. The increase was driven by ongoing simplification and technology refresh activity, investment in data infrastructure, cyber security and technology to enable bankers and the contact centre to better serve customer needs.

Investment in **compliance and risk** initiatives increased by \$14 million or 3.1%. The increase was largely driven by improvements to the home lending control environment, data governance and development of a new regulatory platform for enhanced reporting of statistical data.

Investment in **customer experience, efficiency and sustainable revenue** initiatives decreased by \$3 million or 0.6%. There is a continued focus on simplification in the Wealth business and investment in enhancements to customer experience relating to business and home lending.

September 2019 v March 2019

Investment in **infrastructure** initiatives increased by \$151 million or 55.3%. The increase was largely driven by ongoing simplification and technology refresh activity, investment in data infrastructure, cyber security and technology to better serve customer needs in the contact centre and branch network.

Investment in **compliance and risk** initiatives increased by \$48 million or 22.7%. The increase was largely driven by improvements to the home lending control environment and transformation of the governance and risk framework across the Group.

Investment in **customer experience, efficiency and sustainable revenue** initiatives increased by \$56 million or 24.2%. The increase was driven by investment in generating sustainable efficiencies in operations and ongoing enhancements to the customer experience relating to business and home lending.

Taxation

	Year to			Half Year to		
	Sep 19	Sep 18	Sep 19 v Sep 18	Sep 19	Mar 19	Sep 19 v Mar 19
Income tax expense (\$m)	2,109	2,404	(12.3%)	865	1,244	(30.5%)
Effective tax rate (%)	28.9	29.3	(40 bps)	28.5	29.3	(80 bps)

September 2019 v September 2018

Cash earnings income tax expense decreased by \$295 million or 12.3%. The decrease was mainly due to lower cash earnings before tax.

The **cash earnings effective tax rate** of 28.9% decreased by 40 basis points mainly due to an increase in the foreign tax rate differences and other non-recurring items in both periods.

September 2019 v March 2019

Cash earnings income tax expense decreased by \$379 million or 30.5%. The decrease was mainly due to lower cash earnings before tax.

The **cash earnings effective tax rate** of 28.5% decreased by 80 basis points mainly due to an increase in the foreign tax rate differences, one-off capital disposals that are non-taxable or offset by capital losses, and other non-recurring items in both periods.

Lending

	As at			Sep 19 v Sep 18 %	Sep 19 v Mar 19 %
	30 Sep 19 \$m	31 Mar 19 \$m	30 Sep 18 \$m		
Housing					
Business and Private Banking	88,320	89,999	90,793	(2.7)	(1.9)
Consumer Banking and Wealth	215,584	216,621	212,157	1.6	(0.5)
Corporate and Institutional Banking	110	133	168	(34.5)	(17.3)
New Zealand Banking	39,901	39,539	36,422	9.6	0.9
Total housing	343,915	346,292	339,540	1.3	(0.7)
Non-housing					
Business and Private Banking	112,273	111,178	108,724	3.3	1.0
Consumer Banking and Wealth	6,015	6,431	6,643	(9.5)	(6.5)
Corporate and Institutional Banking	97,694	95,311	91,215	7.1	2.5
New Zealand Banking	40,984	41,736	39,208	4.5	(1.8)
Corporate Functions and Other	471	365	260	81.2	29.0
Total non-housing	257,437	255,021	246,050	4.6	0.9
Gross loans and advances including acceptances	601,352	601,313	585,590	2.7	-

September 2019 v September 2018

Lending (gross loans and advances including acceptances) increased by \$15.8 billion or 2.7% due to growth in housing and business lending.

Housing lending increased by \$4.4 billion or 1.3% mainly due to:

- An increase of \$3.5 billion or 9.6% in New Zealand Banking reflecting growth in both broker and proprietary channels.
- An increase of \$3.4 billion or 1.6% in Consumer Banking and Wealth largely due to growth in the broker channel.
- A decrease of \$2.5 billion or 2.7% in Business and Private Banking due to increased competition.

Non-housing lending increased by \$11.4 billion or 4.6% mainly due to:

- An increase of \$6.5 billion or 7.1% in Corporate and Institutional Banking reflecting focus on the Bank for Investor and Bank for Infrastructure strategies.
- An increase of \$3.5 billion or 3.3% in Business and Private Banking driven by leveraging its deep industry specialisations and strong market position.
- An increase of \$1.8 billion or 4.5% in New Zealand Banking reflecting growth across key segments.

September 2019 v March 2019

Lending (gross loans and advances including acceptances) is flat with growth in business lending, offset by a decrease in housing lending.

Housing lending decreased by \$2.4 billion or 0.7% mainly due to:

- A decrease of \$1.7 billion or 1.9% in Business and Private Banking due to lower investor loans and increased competition.
- A decrease of \$1.0 billion or 0.5% in Consumer Banking and Wealth largely due to contraction in retail and direct channels.
- An increase of \$0.4 billion or 0.9% in New Zealand Banking reflecting growth in both proprietary and broker channels.

Non-housing lending increased by \$2.4 billion or 0.9% mainly due to:

- An increase of \$2.4 billion or 2.5% in Corporate and Institutional Banking reflecting focus on Bank for Investor and Bank for Infrastructure strategies.
- An increase of \$1.1 billion or 1.0% in Business and Private Banking driven by leveraging its deep industry specialisations and strong market position.

Goodwill and Other Intangible Assets

Goodwill

Goodwill is flat compared to both 31 March 2019 and 30 September 2018.

The movement in goodwill is as follows:

	Year ended		Half Year ended	
	Sep 19	Sep 18	Sep 19	Mar 19
	\$m	\$m	\$m	\$m
Balance at beginning of period	2,863	2,862	2,864	2,863
Foreign currency translation adjustments	1	1	-	1
Goodwill	2,864	2,863	2,864	2,864

Other Intangible Assets

Intangible assets are comprised of capitalised software and other intangible assets. Intangible assets include a decrease of \$207 million or 7.2% of capitalised software compared to September 2018. The decrease was largely attributable to \$494 million of accelerated amortisation of software assets following a change to the application of the software capitalisation policy to increase the threshold for capitalisation of software from \$0.5 million to \$2 million, partially offset by continued investment in software.

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

- In Australia, continued investment in technology infrastructure, transforming the customer experience, as well as compliance and risk initiatives.
- In New Zealand, continued investment in capabilities to support the implementation of the Bank of New Zealand strategic plan, particularly its digitisation to enhance customer experience and support its productivity agenda as well as regulatory compliance initiatives.

The movement in capitalised software is as follows:

	Year ended		Half Year ended	
	Sep 19	Sep 18	Sep 19	Mar 19
	\$m	\$m	\$m	\$m
Balance at beginning of period	2,895	2,706	2,982	2,895
Additions	905	819	534	371
Disposals and write-offs	(15)	(172)	(15)	-
Amortisation	(612)	(457)	(316)	(296)
Policy change ⁽¹⁾	(494)	-	(494)	-
Foreign currency translation adjustments	9	(1)	(3)	12
Capitalised software	2,688	2,895	2,688	2,982

⁽¹⁾ Accelerated amortisation charge following a change to the application of the software capitalisation policy.

Customer Deposits

	As at			Sep 19 v Sep 18 %	Sep 19 v Mar 19 %
	30 Sep 19 \$m	31 Mar 19 \$m	30 Sep 18 \$m		
Business and Private Banking	135,326	135,950	132,487	2.1	(0.5)
Consumer Banking and Wealth	125,133	123,870	120,640	3.7	1.0
Corporate and Institutional Banking	101,269	99,470	97,981	3.4	1.8
New Zealand Banking	57,046	57,225	53,542	6.5	(0.3)
Corporate Functions and Other	5,838	5,220	4,324	35.0	11.8
Total customer deposits	424,612	421,735	408,974	3.8	0.7

September 2019 v September 2018

Customer deposits increased by \$15.6 billion or 3.8%. This is as a result of the Group continuing to execute on its funding strategy, which includes growth in stable and reliable customer deposits. This growth was due to:

- An increase of \$2.8 billion or 2.1% in Business and Private Banking driven by an increase of \$2.2 billion in at-call deposits and non-interest bearing business transactional accounts of \$1.8 billion. This was partially offset by a reduction in term deposits of \$1.1 billion.
- An increase of \$4.5 billion or 3.7% in Consumer Banking and Wealth from growth in at-call deposits of \$3.7 billion due to competitive pricing, combined with an increase in term deposits of \$0.5 billion.
- An increase of \$3.3 billion or 3.4% in Corporate and Institutional Banking driven by growth in domestic business at-call deposits of \$5.6 billion, partially offset by a reduction in institutional term deposits of \$2.5 billion.
- An increase of \$3.5 billion or 6.5% in New Zealand Banking mainly due to growth in at-call deposits of \$1.6 billion and term deposits of \$0.8 billion and the appreciation of the New Zealand dollar of \$0.7 billion.
- An increase of \$1.5 billion or 35.0% in Corporate Functions and Other reflecting Treasury funding and liquidity management activities with an increase in at-call deposits of \$2.3 billion offset by a decrease in term deposits of \$0.8 billion.

September 2019 v March 2019

Customer deposits increased by \$2.9 billion or 0.7% due to:

- An increase of \$1.3 billion or 1.0% in Consumer Banking and Wealth driven by growth in at-call deposits of \$2.8 billion, partially offset by a decrease in term deposits of \$1.9 billion.
- An increase of \$1.8 billion or 1.8% in Corporate and Institutional Banking driven by growth in domestic business at-call deposits of \$7.0 billion, partially offset by a reduction in institutional term deposits of \$5.3 billion.
- An increase of \$0.6 billion or 11.8% in Corporate Functions and Other reflecting Treasury funding and liquidity management activities with an increase in at-call deposits of \$1.1 billion offset by a decrease in term deposits of \$0.4 billion.
- A decrease of \$0.6 billion or 0.5% in Business and Private Banking mainly driven by a decrease in term deposits of \$4.0 billion, partially offset by an increase in on-demand savings products of \$2.0 billion and non-interest bearing accounts of \$1.3 billion.
- A decrease of \$0.2 billion or 0.3% in New Zealand Banking mainly due to depreciation of the New Zealand dollar of \$1.9 billion, partially offset by an increase in at-call deposits of \$0.8 billion and term deposits of \$0.6 billion.

Asset Quality

Credit Impairment Charge

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Specific credit impairment charge - new and increased	881	753	17.0	472	409	15.4
Specific credit impairment charge - write-backs	(170)	(193)	(11.9)	(81)	(89)	(9.0)
Specific credit impairment charge - recoveries	(57)	(73)	(21.9)	(34)	(23)	47.8
Specific credit impairment charge	654	487	34.3	357	297	20.2
Collective credit impairment charge	265	292	(9.2)	113	152	(25.7)
Total credit impairment charge	919	779	18.0	470	449	4.7

	Year to			Half Year to		
	Sep 19	Sep 18	Sep 19 v Sep 18	Sep 19	Mar 19	Sep 19 v Mar 19
Credit impairment charge to gross loans and acceptances (annualised)	0.15%	0.13%	2 bps	0.16%	0.15%	1 bp
Net write-offs to gross loans and acceptances (annualised) ⁽¹⁾	0.09%	0.09%	-	0.09%	0.09%	-

September 2019 v September 2018

Credit impairment charge increased by \$140 million or 18.0% to \$919 million.

Specific credit impairment charge increased by \$167 million or 34.3%, driven by:

- Higher charges in Corporate and Institutional Banking for the impairment of a small number of larger exposures.
- Higher charges in New Zealand Banking for the impairment of a small number of larger exposures in the dairy portfolio.
- Higher level of new and increased charges in Business and Private Banking for individual impaired exposures, partially offset by write-backs resulting from business turnarounds for a small number of larger exposures.

Collective credit impairment charge decreased by \$27 million or 9.2%, driven by:

- The non-repeat of collective provision charges for mortgage model enhancements.
- A lower net level of collective provision forward looking adjustments (FLAs) raised for targeted sectors.
- A lower level of collective provision charges for the Australian unsecured retail portfolio.

This was partially offset by:

- Higher level of collective provision charges for the Australian mortgage portfolio due to increased delinquencies and the impact of house price movements.
- Higher level of collective provision charges related to re-ratings of a small number of exposures within the Australian business lending portfolio.

The Group ratio of **net write-offs to gross loans and acceptances** is flat at 0.09% reflecting low levels of write-off activity.

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

September 2019 v March 2019

Credit impairment charge increased by \$21 million or 4.7% to \$470 million.

Specific credit impairment charge increased by \$60 million or 20.2%, driven by:

- Higher level of new and increased charges in Business and Private Banking for individual impaired exposures, combined with the non-repeat of write-backs for a small number of larger exposures in the prior period.
- Higher charges in New Zealand Banking for the impairment of a small number of larger exposures in the dairy portfolio.

This was partially offset by lower charges in Corporate and Institutional Banking.

Collective credit impairment charge decreased by \$39 million or 25.7%, driven by:

- A lower level of collective provision charges for the Australian unsecured retail portfolio due to volume reductions and improved portfolio quality.
- Non-repeat of collective provision charges for forward looking economic adjustments.

This was partially offset by:

- Higher level of collective provision charges for the Australian mortgage portfolio.
- Higher level of collective provision charges related to re-ratings of a small number of larger exposures in Corporate and Institutional Banking.

The Group ratio of **net write-offs to gross loans and acceptance** is flat at 0.09% reflecting low levels of write-off activity.

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

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

Asset Quality (continued)

Provision for Credit Impairment

	As at			Sep 19 v Sep 18 %	Sep 19 v Mar 19 %
	Sep 19 \$m	Mar 19 \$m	Sep 18 \$m		
Collective provision on loans at amortised cost	3,118	3,015	2,840	9.8	3.4
Collective provision on loans at fair value	65	73	80	(18.8)	(11.0)
Collective provision on derivatives at fair value	177	161	134	32.1	9.9
Total collective provision for credit impairment	3,360	3,249	3,054	10.0	3.4
Total specific provision for credit impairment	782	717	675	15.9	9.1
Total provision for credit impairment	4,142	3,966	3,729	11.1	4.4

	As at			Sep 19 v Sep 18	Sep 19 v Mar 19
	Sep 19	Mar 19	Sep 18		
Total provision to gross loans and acceptances	0.69%	0.66%	0.64%	5 bps	3 bps
Total provision to net write-offs (annualised) ⁽¹⁾	763%	766%	746%	large	(300 bps)
Specific provision to gross impaired assets ⁽²⁾	39.7%	45.8%	44.4%	(470 bps)	(610 bps)
Collective provision to credit risk-weighted assets	0.96%	0.94%	0.92%	4 bps	2 bps
Collective provision to gross loans and acceptances	0.56%	0.54%	0.52%	4 bps	2 bps

September 2019 v September 2018

Provisions for credit impairment increased by \$413 million or 11.1% to \$4,142 million.

Specific provisions increased by \$107 million or 15.9% mainly 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.

Collective provisions increased by \$306 million or 10.0%. This was mainly due to:

- Additional collective provision FLAs raised for the agriculture and mortgage portfolios.
- Collective provision increases for the Australian mortgage and business lending portfolios.
- Increase in collective provisions held for the derivatives portfolio due to market movements.

This was partially offset by:

- Release of collective provision FLAs for the resources and commercial real estate portfolios.
- Release of collective provisions for the Australian unsecured retail portfolio.

The **collective provision to credit risk-weighted assets** ratio increased 4 basis points to 0.96% predominantly due to collective provision increases, partially offset by an uplift in credit risk-weighted assets due to regulatory prescribed methodology changes and the introduction of the standardised approach for measuring counterparty credit risk exposures (SA-CCR).

September 2019 v March 2019

Provisions for credit impairment increased by \$176 million or 4.4% to \$4,142 million.

Specific provisions increased by \$65 million or 9.1% mainly 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.

Collective provisions increased by \$111 million or 3.4%. This was mainly due to:

- Collective provision increases for the Australian mortgage and business lending portfolios.
- Additional collective provision FLAs raised for the agriculture portfolio.

This was partially offset by:

- Release of collective provision FLAs for the resources and commercial real estate portfolios.
- Release of collective provisions for the Australian unsecured retail portfolio.

The **collective provision to credit risk-weighted assets** ratio increased 2 basis points to 0.96% predominantly due to collective provision increases, partially offset by an uplift in credit risk-weighted assets due to the introduction of SA-CCR.

⁽¹⁾ Net write-offs include net write-offs of fair value loans. September 2019 and September 2018 metrics refer to the full year ratio; March 2019 metrics refers to the half year ratio annualised.

⁽²⁾ September 2018 excludes \$2 million (NZ\$3 million) of New Zealand Banking dairy exposures that were assessed as no loss based on security held. Collective provisions are held against these loans.

Asset Quality (continued)

90+ Days Past Due and Gross Impaired Assets

	As at			Sep 19 v Sep 18 %	Sep 19 v Mar 19 %
	Sep 19 \$m	Mar 19 \$m	Sep 18 \$m		
90+ days past due (DPD) loans	3,603	3,206	2,648	36.1	12.4
Gross impaired assets ⁽¹⁾	1,972	1,564	1,521	29.7	26.1
90+ DPD and gross impaired assets	5,575	4,770	4,169	33.7	16.9

	As at			Sep 19 v Sep 18	Sep 19 v Mar 19
	Sep 19	Mar 19	Sep 18		
90+ DPD loans to gross loans and acceptances	0.60%	0.53%	0.45%	15 bps	7 bps
Gross impaired assets to gross loans and acceptances	0.33%	0.26%	0.26%	7 bps	7 bps
90+ DPD and gross impaired assets to gross loans and acceptances	0.93%	0.79%	0.71%	22 bps	14 bps

September 2019 v September 2018

The Group ratio of **90+ DPD loans to gross loans and acceptances** increased by 15 basis points to 0.60%. This was primarily driven by increased delinquencies across the Australian mortgage portfolio.

The Group ratio of **gross impaired assets to gross loans and acceptances** increased by 7 basis points to 0.33%. This was predominantly driven by:

- The impairment of a small number of larger exposures in the New Zealand dairy portfolio.
- The impairment of a small number of larger exposures in the Australian business lending portfolio, partially offset by business turnarounds for a small number of larger exposures.

September 2019 v March 2019

The Group ratio of **90+ DPD loans to gross loans and acceptances** increased by 7 basis points to 0.60%. This was primarily driven by increased delinquencies across the Australian mortgage portfolio.

The Group ratio of **gross impaired assets to gross loans and acceptances** increased by 7 basis points to 0.33%. This was predominantly driven by:

- The impairment of a small number of larger exposures in the New Zealand dairy portfolio.
- An increase in the level of impairment activity within Business and Private Banking.

⁽¹⁾ September 2018 includes \$2 million (NZ\$3 million) of New Zealand Banking dairy exposures that were assessed as no loss based on security held. Collective provisions are held against these loans.

Capital Management and Funding

Balance Sheet Management Overview

The Group aims to maintain strong capital, funding and liquidity, 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) will be 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.

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. The RBNZ expects to publish final rules in December 2019.

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

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 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.

Pillar 3 Disclosures

Further disclosures with respect to capital adequacy and risk management will be included in the September 2019 Pillar 3 Report as required by APRA Prudential Standard APS 330 *Public Disclosure*.

Capital Management and Funding (continued)

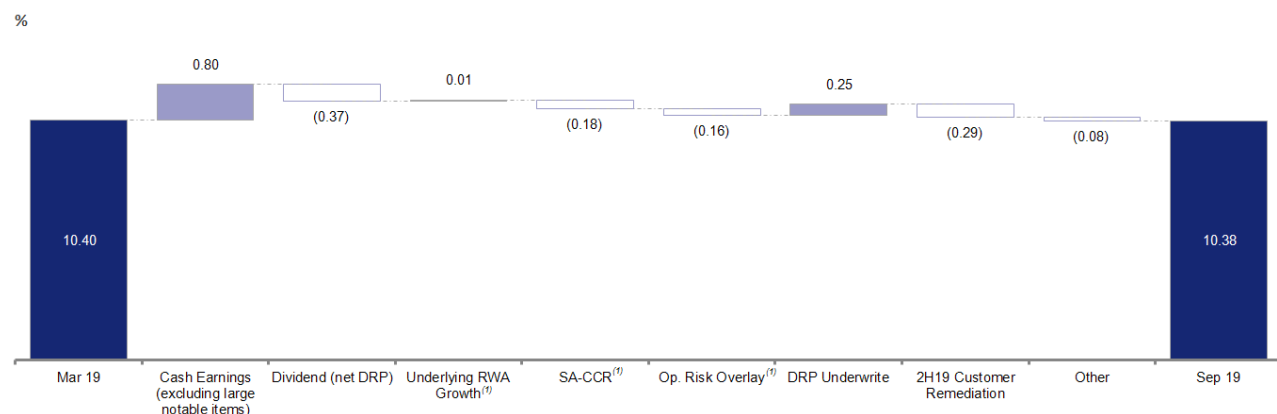
Capital Management (continued)

Capital Ratios

Capital ratios	As at			Sep 19 v Sep 18	Sep 19 v Mar 19
	30 Sep 19 %	31 Mar 19 %	30 Sep 18 %		
Common Equity Tier 1	10.38	10.40	10.20	18 bps	(2 bps)
Tier 1	12.36	12.45	12.38	(2 bps)	(9 bps)
Total capital	14.68	14.00	14.12	56 bps	68 bps

Risk-weighted assets	As at			Sep 19 v Sep 18 %	Sep 19 v Mar 19 %
	30 Sep 19 \$m	31 Mar 19 \$m	30 Sep 18 \$m		
Credit risk	351,646	345,397	331,381	6.1	1.8
Market risk	10,023	9,190	9,460	6.0	9.1
Operational risk	47,698	40,945	37,500	27.2	16.5
Interest rate risk in the banking book	6,404	7,673	11,343	(43.5)	(16.5)
Total risk-weighted assets	415,771	403,205	389,684	6.7	3.1

Movements in Common Equity Tier 1 Ratio



⁽¹⁾ Underlying RWA Growth, SA-CCR and Op. Risk Overlay make up the net increase in RWA.

Capital Movements During the Period

The Group's Common Equity Tier 1 ratio was 10.38% at 30 September 2019. The key movements in capital over the September 2019 half year included:

- Cash earnings less the dividend net of Dividend Reinvestment Plan participation resulting in an increase of 43 basis points.
- A net increase in risk-weighted assets which reduced the CET1 ratio by 33 basis points. Increases in credit risk, operational risk and market risk were partially offset by a reduction in interest rate risk in the banking book. The implementation of the SA-CCR and the APRA operational risk overlay contributed 34 basis points to the increase in risk-weighted assets.
- Dividend Reinvestment Plan underwrite of \$1 billion in respect of the interim dividend resulting in an increase of 25 basis points.
- A customer-related remediation provision of \$1,189 million (before tax) resulting in a decrease of 29 basis points.

Dividend and Dividend Reinvestment Plan

For the half year ending 31 March 2019, the interim dividend was reduced to 83 cents. The final dividend for

the year ending 30 September 2019 has been maintained at 83 cents, 100% franked, payable on 12 December 2019. 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.

The Group periodically adjusts the Dividend Reinvestment Plan (DRP) to reflect its capital position and outlook. The Group will apply a DRP discount of 1.5% with no participation limit.

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. Assuming a DRP participation rate of 35%, these initiatives will provide an expected increase in share capital of approximately \$1.55 billion, which is equivalent to a 37 basis point increase in NAB's CET1 ratio.

Additional Tier 1 Capital Initiatives

On 17 December 2018, the Group redeemed the GBP400 million Trust Preferred Securities (TPS) issued by National

Capital Management and Funding (continued)

Capital Trust I and guaranteed (on a limited basis) by NAB on 29 September 2003. The TPS 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, NAB 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 CPS was redeemed.

Tier 2 Capital Initiatives

The Group's Tier 2 Capital initiatives during the September 2019 full year included the following:

- On 17 May 2019, NAB issued \$1 billion of subordinated notes.
- On 2 August 2019, NAB issued US\$1.5 billion of subordinated notes.
- The Group repurchased and cancelled US\$24 million of the perpetual floating rate notes issued on 9 October 1986.

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

Group Funding Metrics

	As at			
	30 Sep 19	30 Sep 18	30 Sep 17	30 Sep 16 ⁽¹⁾
	%	%	%	%
CFI	70	69	70	69
TFI	23	24	23	22
SFI	93	93	93	91
NSFR	113	113	108	n/a

Customer Funding

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

The Monthly Banking Statistics published by APRA show that over the 6 months ended September 2019⁽²⁾, 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 full 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) and \$3.2 billion of subordinated Tier 2 funding. BNZ raised \$4.0 billion during the September 2019 full year.

The weighted average maturity of term wholesale funding raised by the Group over the September 2019 full 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.

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

⁽²⁾ 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.

Capital Management and Funding (continued)

Term Wholesale Funding Issuance by Deal Type

	As at		
	30 Sep 19	31 Mar 19	30 Sep 18
	%	%	%
Senior Public Offshore	35	32	47
Senior Public Domestic	27	28	25
Secured Public Offshore	14	22	4
Secured Public Domestic	6	10	12
Subordinated Public	12	-	-
Private Placements	6	8	12
Total	100	100	100

Term Wholesale Funding Issuance by Currency

	As at		
	30 Sep 19	31 Mar 19	30 Sep 18
	%	%	%
USD	30	35	26
AUD	36	34	38
EUR	23	17	22
GBP	-	-	3
JPY	6	9	5
Other	5	5	6
Total	100	100	100

Short-term Wholesale Funding

The Group maintained consistent access to international and domestic short-term wholesale funding markets during the September 2019 full 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 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 will be provided in the September 2019 Pillar 3 Report.

	As at		
	30 Sep 19	31 Mar 19	30 Sep 18
High Quality Liquid Asset (\$bn)	88	85	81
Alternative Liquid Assets (\$bn)	55	55	61
Total LCR liquid assets (\$bn)	143	140	142
Net cash outflows (\$bn)	114	108	110
Quarterly average LCR (%)	126	130	129

Credit Ratings

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

National Australia Bank Credit Ratings

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

Section 3

Divisional Review

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Divisional Performance Summary

	Business and Private Banking	Consumer Banking and Wealth	Corporate and Institutional Banking	New Zealand Banking	Corporate Functions and Other ⁽¹⁾	Group cash earnings
Year ended 30 September 2019	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income ⁽²⁾	5,634	3,918	1,827	1,828	407	13,614
Other operating income ⁽²⁾⁽³⁾	1,037	1,389	1,539	571	278	4,814
Customer-related remediation ⁽⁴⁾	-	-	-	-	(1,207)	(1,207)
Net operating income	6,671	5,307	3,366	2,399	(522)	17,221
Operating expenses ⁽⁵⁾	(2,265)	(3,051)	(1,281)	(911)	(647)	(8,155)
Customer-related remediation ⁽⁴⁾	-	-	-	-	(364)	(364)
Capitalised software policy change ⁽⁴⁾	-	-	-	-	(494)	(494)
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
Cash earnings / (deficit) excluding large notable items⁽⁴⁾	2,840	1,366	1,508	997	(166)	6,545
Key balance sheet items (\$bn)						Total
Gross loans and acceptances	200.6	221.6	97.8	80.9	0.5	601.4
Customer deposits	135.3	125.1	101.3	57.0	5.9	424.6

⁽¹⁾ Corporate Functions and Other includes Group Eliminations.

⁽²⁾ Excluding customer-related remediation.

⁽³⁾ Consumer Banking and Wealth includes net investment income.

⁽⁴⁾ Refer to Section 2 Large notable items for further information.

⁽⁵⁾ Excluding customer-related remediation and a change to the application of the software capitalisation policy.

Divisional Performance Summary (continued)

	Business and Private Banking	Consumer Banking and Wealth	Corporate and Institutional Banking	New Zealand Banking	Corporate Functions and Other⁽¹⁾	Group cash earnings
Year ended 30 September 2018	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	5,539	3,964	1,882	1,698	384	13,467
Other operating income ⁽²⁾⁽³⁾	1,068	1,541	1,451	520	179	4,759
Customer-related remediation ⁽⁴⁾	-	-	-	-	(249)	(249)
Net operating income	6,607	5,505	3,333	2,218	314	17,977
Operating expenses ⁽⁵⁾	(2,230)	(3,046)	(1,297)	(869)	(684)	(8,126)
Restructuring-related costs ⁽⁴⁾	-	-	-	-	(755)	(755)
Customer-related remediation ⁽⁴⁾	-	-	-	-	(111)	(111)
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
Cash earnings / (deficit) excluding large notable items⁽⁴⁾	2,911	1,539	1,541	922	(420)	6,493
Key balance sheet items (\$bn)						Total
Gross loans and acceptances	199.5	218.8	91.4	75.6	0.3	585.6
Customer deposits	132.5	120.6	98.0	53.5	4.4	409.0

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

Divisional Performance Summary (continued)

	Business and Private Banking	Consumer Banking and Wealth	Corporate and Institutional Banking	New Zealand Banking	Corporate Functions and Other ⁽¹⁾	Group cash earnings
Half Year ended 30 September 2019	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income ⁽²⁾	2,826	2,018	893	908	193	6,838
Other operating income ⁽²⁾⁽³⁾	516	681	735	302	138	2,372
Customer-related remediation ⁽⁴⁾	-	-	-	-	(863)	(863)
Net operating income	3,342	2,699	1,628	1,210	(532)	8,347
Operating expenses ⁽⁵⁾	(1,150)	(1,521)	(632)	(461)	(336)	(4,100)
Customer-related remediation ⁽⁴⁾	-	-	-	-	(244)	(244)
Capitalised software policy change ⁽⁴⁾	-	-	-	-	(494)	(494)
Underlying profit / (loss)	2,192	1,178	996	749	(1,606)	3,509
Credit impairment charge	(217)	(141)	(27)	(62)	(23)	(470)
Cash earnings / (deficit) before tax and distributions	1,975	1,037	969	687	(1,629)	3,039
Income tax (expense) / benefit	(597)	(309)	(242)	(193)	476	(865)
Cash earnings / (deficit) before distributions	1,378	728	727	494	(1,153)	2,174
Distributions	-	-	-	-	(31)	(31)
Cash earnings / (deficit)	1,378	728	727	494	(1,184)	2,143
Cash earnings / (deficit) excluding large notable items⁽⁴⁾	1,378	728	727	494	(61)	3,266
Key balance sheet items (\$bn)						Total
Gross loans and acceptances	200.6	221.6	97.8	80.9	0.5	601.4
Customer deposits	135.3	125.1	101.3	57.0	5.9	424.6

⁽¹⁾ Corporate Functions and Other includes Group Eliminations.⁽²⁾ Excluding customer-related remediation.⁽³⁾ Consumer Banking and Wealth includes net investment income.⁽⁴⁾ Refer to Section 2 Large notable items for further information.⁽⁵⁾ Excluding customer-related remediation and a change to the application of the software capitalisation policy.

Divisional Performance Summary (continued)

	Business and Private Banking	Consumer Banking and Wealth	Corporate and Institutional Banking	New Zealand Banking	Corporate Functions and Other⁽¹⁾	Group cash earnings
Half Year ended 31 March 2019	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income ⁽²⁾	2,808	1,900	934	920	214	6,776
Other operating income ⁽²⁾⁽³⁾	521	708	804	269	140	2,442
Customer-related remediation ⁽⁴⁾	-	-	-	-	(344)	(344)
Net operating income	3,329	2,608	1,738	1,189	10	8,874
Operating expenses ⁽²⁾	(1,115)	(1,530)	(649)	(450)	(311)	(4,055)
Customer-related remediation ⁽⁴⁾	-	-	-	-	(120)	(120)
Underlying profit / (loss)	2,214	1,078	1,089	739	(421)	4,699
Credit impairment charge	(119)	(173)	(43)	(41)	(73)	(449)
Cash earnings / (deficit) before tax and distributions	2,095	905	1,046	698	(494)	4,250
Income tax (expense) / benefit	(633)	(267)	(265)	(195)	116	(1,244)
Cash earnings / (deficit) before distributions	1,462	638	781	503	(378)	3,006
Distributions	-	-	-	-	(52)	(52)
Cash earnings / (deficit)	1,462	638	781	503	(430)	2,954
Cash earnings / (deficit) excluding customer-related remediation⁽⁴⁾	1,462	638	781	503	(105)	3,279
Key balance sheet items (\$bn)						Total
Gross loans and acceptances	201.2	223.1	95.4	81.3	0.3	601.3
Customer deposits	135.9	123.9	99.5	57.2	5.2	421.7

⁽¹⁾ Corporate Functions and Other includes Group Eliminations.⁽²⁾ Excluding customer-related remediation.⁽³⁾ Consumer Banking and Wealth includes net investment income.⁽⁴⁾ Refer to Section 2 Large notable items for further information.

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

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Net interest income	5,634	5,539	1.7	2,826	2,808	0.6
Other operating income	1,037	1,068	(2.9)	516	521	(1.0)
Net operating income	6,671	6,607	1.0	3,342	3,329	0.4
Operating expenses	(2,265)	(2,230)	1.6	(1,150)	(1,115)	3.1
Underlying profit	4,406	4,377	0.7	2,192	2,214	(1.0)
Credit impairment charge	(336)	(207)	62.3	(217)	(119)	82.4
Cash earnings before tax	4,070	4,170	(2.4)	1,975	2,095	(5.7)
Income tax expense	(1,230)	(1,259)	(2.3)	(597)	(633)	(5.7)
Cash earnings	2,840	2,911	(2.4)	1,378	1,462	(5.7)

Volumes (\$bn)

Housing lending	88.3	90.8	(2.8)	88.3	90.0	(1.9)
Business lending	109.0	105.3	3.5	109.0	107.8	1.1
Other lending	3.3	3.4	(2.9)	3.3	3.4	(2.9)
Gross loans and acceptances	200.6	199.5	0.6	200.6	201.2	(0.3)
Average interest earning assets	192.0	187.7	2.3	192.8	191.3	0.8
Total assets	200.8	199.8	0.5	200.8	201.5	(0.3)
Customer deposits	135.3	132.5	2.1	135.3	135.9	(0.4)
Total risk-weighted assets	119.2	116.2	2.6	119.2	119.3	(0.1)

Performance Measures

Cash earnings on average assets	1.42%	1.49%	(7 bps)	1.37%	1.47%	(10 bps)
Cash earnings on average risk-weighted assets	2.39%	2.55%	(16 bps)	2.30%	2.48%	(18 bps)
Net interest margin	2.93%	2.95%	(2 bps)	2.92%	2.94%	(2 bps)
Cost to income ratio	34.0%	33.8%	20 bps	34.4%	33.5%	90 bps

Asset Quality	Year to			Half Year to		
	Sep 19	Sep 18	Sep 19 v Sep 18	Sep 19	Mar 19	Sep 19 v Mar 19
90+ DPD and gross impaired assets to gross loans and acceptances	0.95%	0.78%	17 bps	0.95%	0.83%	12 bps
Credit impairment charge to gross loans and acceptances (annualised)	0.17%	0.10%	7 bps	0.22%	0.12%	10 bps

Business and Private Banking (continued)

September 2019 v September 2018

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.

Key movements	Key drivers
Net interest income up \$95m, 1.7%	<ul style="list-style-type: none"> Average interest earning assets increased by \$4.3 billion or 2.3% primarily due to growth in business lending as NAB continues to leverage its deep industry specialisations and strong market position. Customer deposits increased by \$2.8 billion or 2.1%, reflecting a continued focus on growing stable and reliable deposits. Net interest margin decreased by 2 basis points primarily driven by a lower earnings rate on deposits due to the low interest rate environment.
Other operating income down \$31m, 2.9%	<ul style="list-style-type: none"> Reduction and removal of certain fees providing better customer outcomes. Lower interchange income driven by lower card volumes and higher scheme charges reflecting the increased use of cards for low-value payments.
Operating expenses up \$35m, 1.6%	<ul style="list-style-type: none"> Continued investment in technology with associated amortisation charges, increased spend to uplift customer experience and strengthen the compliance and control environment, and the impact of annual salary increases. Partially offset by productivity benefits achieved through continued simplification of the business and reduction in third party spend combined with lower performance-based compensation costs.
Credit impairment charge up \$129m, 62.3%	<ul style="list-style-type: none"> 90+ DPD and gross impaired assets to gross loans and acceptances increased by 17 basis points driven by an increase in 90+ DPD assets largely as a result of mortgage delinquencies. Collective provision charges increased due to growth in business lending gross loans and acceptances, the increase in 90+ DPD assets and the impact of house price movements. Specific charges increased due to a higher level of new and increased charges for individual impaired exposures, partially offset by write-backs resulting from business turnarounds for a small number of larger exposures.
Risk-weighted assets up \$3.0bn, 2.6%	<ul style="list-style-type: none"> Increase in risk-weighted assets due to regulatory prescribed methodology changes and growth in gross loans and acceptances.

September 2019 v March 2019

Cash earnings decreased by \$84 million or 5.7%, 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.

Key movements	Key drivers
Net interest income up \$18m, 0.6%	<ul style="list-style-type: none"> Average interest earning assets increased by \$1.5 billion or 0.8% due to growth in business lending as NAB continues to leverage its deep industry specialisations and strong market position. Net interest margin decreased by 2 basis points primarily driven by a lower earnings rate on deposits and capital due to the low interest rate environment.
Other operating income down \$5m, 1.0%	<ul style="list-style-type: none"> Higher scheme charges reflecting the increased use of cards for low-value payments. Partially offset by higher JBWere income and seasonally higher foreign exchange revenue.
Operating expenses up \$35m, 3.1%	<ul style="list-style-type: none"> Continued investment in technology with associated amortisation charges, increased spend to uplift customer experience and strengthen the compliance and control environment, and the impact of annual salary increases. Partially offset by productivity benefits achieved through continued simplification of the business and reduction in third party spend combined with lower performance-based compensation costs.
Credit impairment charge up \$98m, 82.4%	<ul style="list-style-type: none"> 90+ DPD and gross impaired assets to gross loans and acceptances increased by 12 basis points driven by an increase in 90+ DPD assets largely as a result of mortgage delinquencies. Collective provision charges increased due to growth in business lending gross loans and acceptances, the increase in 90+ DPD assets and the impact of house price movements. Specific charges increased due to an increase in the number of individual impaired exposures, and write-backs for a small number of larger exposures in the prior period.
Risk-weighted assets down \$0.1bn, 0.1%	<ul style="list-style-type: none"> Decrease in risk-weighted assets due to a decline in gross loans and acceptances.

Consumer Banking and Wealth

Consumer Banking 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.

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Net interest income	3,918	3,964	(1.2)	2,018	1,900	6.2
Net investment income	856	949	(9.8)	423	433	(2.3)
Other operating income	533	592	(10.0)	258	275	(6.2)
Net operating income	5,307	5,505	(3.6)	2,699	2,608	3.5
Operating expenses	(3,051)	(3,046)	0.2	(1,521)	(1,530)	(0.6)
Underlying profit	2,256	2,459	(8.3)	1,178	1,078	9.3
Credit impairment charge	(314)	(271)	15.9	(141)	(173)	(18.5)
Cash earnings before tax	1,942	2,188	(11.2)	1,037	905	14.6
Income tax expense	(576)	(649)	(11.2)	(309)	(267)	15.7
Cash earnings	1,366	1,539	(11.2)	728	638	14.1

Volumes (\$bn)

Housing lending	215.6	212.2	1.6	215.6	216.6	(0.5)
Other lending	6.0	6.6	(9.1)	6.0	6.5	(7.7)
Gross loans and acceptances	221.6	218.8	1.3	221.6	223.1	(0.7)
Average interest earning assets	206.9	198.5	4.2	206.5	207.4	(0.4)
Total assets	230.9	228.7	1.0	230.9	232.5	(0.7)
Customer deposits	125.1	120.6	3.7	125.1	123.9	1.0
Total risk-weighted assets	81.1	79.0	2.7	81.1	81.1	-

Performance Measures

Cash earnings on average assets	0.59%	0.70%	(11 bps)	0.63%	0.56%	7 bps
Cash earnings on average risk-weighted assets (Consumer Banking)	1.53%	1.69%	(16 bps)	1.65%	1.40%	25 bps
Net interest margin (Consumer Banking)	1.90%	2.00%	(10 bps)	1.96%	1.84%	12 bps
Cost to income ratio (Consumer Banking)	54.6%	53.1%	150 bps	53.2%	56.0%	(280 bps)
Cost to income ratio (Wealth)	72.1%	65.3%	680 bps	73.2%	71.1%	210 bps
Funds under management and administration (FUM/A) (spot) (\$m)	120,060	119,145	0.8	120,060	116,636	2.9
Funds under management and administration (FUM/A) (average) (\$m)	116,749	117,371	(0.5)	119,142	114,356	4.2
Assets under management (AUM) (spot) (\$m)	201,511	206,704	(2.5)	201,511	202,875	(0.7)
Assets under management (AUM) (average) (\$m)	201,306	201,386	-	203,547	199,064	2.3
Investment income to average FUM/A (bps) (Wealth)	52	58	(6 bps)	49	54	(5 bps)
Investment income to average AUM (bps) (Wealth)	13	13	-	13	13	-

Asset Quality	Year to			Half Year to		
	Sep 19	Sep 18	Sep 19 v Sep 18	Sep 19	Mar 19	Sep 19 v Mar 19
90+ DPD and gross impaired assets to gross loans and acceptances	1.10%	0.84%	26 bps	1.10%	0.98%	12 bps
Credit impairment charge to gross loans and acceptances (annualised)	0.14%	0.12%	2 bps	0.13%	0.16%	(3 bps)

Consumer Banking and Wealth (continued)

September 2019 v September 2018

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.

Key movements	Key drivers
Net interest income down \$46m, 1.2%	<ul style="list-style-type: none"> Average interest earning assets increased by \$8.4 billion or 4.2%, driven by growth in housing lending. Customer deposits increased by \$4.5 billion or 3.7%. Net interest margin decreased by 10 basis points driven by lower housing lending margins due to competitive pressures and a change in customer preferences (switching from interest only to principal and interest home loans), combined with regulatory changes on unsecured lending, partially offset by the impact of current period repricing in the housing lending portfolio.
Net investment income down \$93m, 9.8%	<ul style="list-style-type: none"> Fee reductions and repricing, removal of grandfathered commissions and a change in customer preferences to lower margin products. Revenue decline from lower average FUM/A (decreased by \$0.6 billion or 0.5%) primarily driven by volatile investment markets.
Other operating income down \$59m, 10.0%	<ul style="list-style-type: none"> Reduction and removal of certain customer fees. Lower interchange income driven by lower card volumes and higher scheme charges reflecting the increased use of cards for low-value payments.
Operating expenses up \$5m, 0.2%	<ul style="list-style-type: none"> Continued investment in technology with associated amortisation charges, increased spend to uplift customer experience and strengthen the compliance and control environment, and the impact of annual salary increases. Partially offset by productivity benefits achieved through continued simplification of the business and reduction in third party spend, combined with lower performance-based compensation costs.
Credit impairment charge up \$43m, 15.9%	<ul style="list-style-type: none"> Higher collective provisions due to increased mortgage delinquencies and the impact of house price movements. 90+ DPD and gross impaired assets to gross loans and acceptances increased 26 basis points to 1.10% reflecting an increase in mortgage delinquencies.
Risk-weighted assets up \$2.1bn, 2.7%	<ul style="list-style-type: none"> Increase due to growth in housing lending volumes.

September 2019 v March 2019

Cash earnings increased by \$90 million or 14.1%, largely driven by higher revenue as a result of lower funding costs and repricing benefits, partially offset by lower margins in the housing lending portfolio.

Key movements	Key drivers
Net interest income up \$118m, 6.2%	<ul style="list-style-type: none"> Average interest earning assets decreased by \$0.9 billion or 0.4%, driven by a decline in housing lending and unsecured lending volumes. Net interest margin increased by 12 basis points driven by lower funding costs, and the full impact of prior period repricing in the housing lending portfolio, partially offset by continued competitive pressures and a change in customer preferences (switching from interest only to principal and interest home loans).
Net investment income down \$10m, 2.3%	<ul style="list-style-type: none"> Changing customer preferences to lower margin products and repricing. Partially offset by an increase in revenue from higher average FUM/A (increased by \$4.8 billion or 4.2%) and AUM (increased by \$4.5 billion or 2.3%) primarily driven by stronger investment markets.
Other operating income down \$17m, 6.2%	<ul style="list-style-type: none"> Lower share of associate's profit in MLC Limited and higher scheme charges reflecting the increased use of cards for low-value payments, partially offset by seasonally higher housing lending fees.
Operating expenses down \$9m, 0.6%	<ul style="list-style-type: none"> Productivity benefits achieved through continued simplification of the business and reduction in third party spend combined with lower performance-based compensation costs. Partially offset by continued investment in technology with 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 down \$32m, 18.5%	<ul style="list-style-type: none"> Lower collective provisions in unsecured lending driven by an improvement in delinquencies, partially offset by higher charges due to increased mortgage delinquencies and the impact of house price movements. 90+ DPD and gross impaired assets to gross loans and acceptances increased 12 basis points over the half year to 1.10%, reflecting an increase in mortgage delinquencies.
Risk-weighted assets is flat	<ul style="list-style-type: none"> Flat due to deterioration in asset quality, offset by a decline in housing lending volumes.

Consumer Banking and Wealth (continued)

Consumer Banking

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Net interest income	3,918	3,964	(1.2)	2,018	1,900	6.2
Other operating income	508	547	(7.1)	256	252	1.6
Net operating income	4,426	4,511	(1.9)	2,274	2,152	5.7
Operating expenses	(2,416)	(2,397)	0.8	(1,210)	(1,206)	0.3
Underlying profit	2,010	2,114	(4.9)	1,064	946	12.5
Credit impairment charge	(314)	(271)	15.9	(141)	(173)	(18.5)
Cash earnings before tax	1,696	1,843	(8.0)	923	773	19.4
Income tax expense	(506)	(554)	(8.7)	(275)	(231)	19.0
Cash earnings	1,190	1,289	(7.7)	648	542	19.6

Wealth

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Net investment income	856	949	(9.8)	423	433	(2.3)
Other operating income	25	45	(44.4)	2	23	(91.3)
Net operating income	881	994	(11.4)	425	456	(6.8)
Operating expenses	(635)	(649)	(2.2)	(311)	(324)	(4.0)
Cash earnings before tax	246	345	(28.7)	114	132	(13.6)
Income tax expense	(70)	(95)	(26.3)	(34)	(36)	(5.6)
Cash earnings	176	250	(29.6)	80	96	(16.7)

Corporate and Institutional Banking

Corporate and Institutional Banking provides a range of lending and transactional products and services related to financial and debt capital markets, specialised capital, custody and alternative investments. The division serves its customers in Australia and globally, including branches in the US, UK and Asia, with specialised industry relationships and product teams. It includes Bank of New Zealand's Markets Trading operations.

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Net interest income	1,827	1,882	(2.9)	893	934	(4.4)
Other operating income	1,539	1,451	6.1	735	804	(8.6)
Net operating income	3,366	3,333	1.0	1,628	1,738	(6.3)
Operating expenses	(1,281)	(1,297)	(1.2)	(632)	(649)	(2.6)
Underlying profit	2,085	2,036	2.4	996	1,089	(8.5)
Credit impairment (charge) / write-back	(70)	43	large	(27)	(43)	(37.2)
Cash earnings before tax	2,015	2,079	(3.1)	969	1,046	(7.4)
Income tax expense	(507)	(538)	(5.8)	(242)	(265)	(8.7)
Cash earnings	1,508	1,541	(2.1)	727	781	(6.9)

Net operating income

Lending and deposits income	2,201	2,093	5.2	1,088	1,113	(2.2)
Markets income (ex derivative valuation adjustments)	763	811	(5.9)	347	416	(16.6)
Derivative valuation adjustments ⁽¹⁾	(21)	(2)	large	(17)	(4)	large
Other income	423	431	(1.9)	210	213	(1.4)
Total net operating income	3,366	3,333	1.0	1,628	1,738	(6.3)

Volumes (\$bn)

Corporate Finance	36.9	30.8	19.8	36.9	34.0	8.5
Business lending	60.5	60.1	0.7	60.5	61.0	(0.8)
Other lending	0.4	0.5	(20.0)	0.4	0.4	-
Gross loans and acceptances	97.8	91.4	7.0	97.8	95.4	2.5
Average interest earning assets	257.5	237.6	8.4	258.8	256.2	1.0
Total assets	295.0	263.8	11.8	295.0	273.0	8.1
Customer deposits	101.3	98.0	3.4	101.3	99.5	1.8
Total risk-weighted assets	127.6	112.3	13.6	127.6	119.1	7.1

Performance Measures

Cash earnings on average assets	0.53%	0.58%	(5 bps)	0.51%	0.56%	(5 bps)
Cash earnings on average risk-weighted assets	1.26%	1.34%	(8 bps)	1.19%	1.34%	(15 bps)
Net interest margin	0.71%	0.79%	(8 bps)	0.69%	0.73%	(4 bps)
Net interest margin (ex Markets)	1.66%	1.67%	(1 bp)	1.63%	1.70%	(7 bps)
Cost to income ratio	38.1%	38.9%	(80 bps)	38.8%	37.3%	150 bps

Asset Quality	Year to			Half Year to		
	Sep 19	Sep 18	Sep 19 v Sep 18	Sep 19	Mar 19	Sep 19 v Mar 19
90+ DPD and gross impaired assets to gross loans and acceptances	0.47%	0.39%	8 bps	0.47%	0.48%	(1 bp)
Credit impairment charge to gross loans and acceptances (annualised)	0.07%	(0.05%)	12 bps	0.06%	0.09%	(3 bps)

⁽¹⁾ Derivative valuation adjustments, which include credit valuation adjustments and funding valuation adjustments, are shown net of hedging costs or benefits. Comparative information has been restated to align to the presentation in the current period.

Corporate and Institutional Banking (continued)

September 2019 v September 2018

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.

Key movements	Key drivers
Net interest income down \$55m, 2.9%	<ul style="list-style-type: none"> Includes a decrease of \$197 million due to movements of economic hedges offset in other operating income. Underlying increase of \$142 million reflects increased gross loans and acceptances and customer deposits, partially offset by lower net interest margin (ex Markets). Gross loans and acceptances increased by \$6.4 billion or 7.0% reflecting continued focus on growth segments. Customer deposits increased by \$3.3 billion or 3.4% reflecting increased domestic business at-call deposits, partially offset by a reduction in institutional term deposits. Net interest margin (ex Markets) decreased by 1 basis point to 1.66% primarily driven by a lower business lending margin environment.
Other operating income up \$88m, 6.1%	<ul style="list-style-type: none"> Includes an increase of \$197 million due to movements of economic hedges offset in net interest income. Underlying decrease of \$109 million primarily due to lower Markets income.
Operating expenses down \$16m, 1.2%	<ul style="list-style-type: none"> Productivity benefits achieved through continued simplification of the business and reduction in third party spend combined with lower performance-based compensation costs. Partially offset by continued investment in technology with 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 up \$113m	<ul style="list-style-type: none"> Increased charges relating to the impairment of a small number of larger exposures compared to a small number of write-backs in the prior period.
Risk-weighted assets up \$15.3bn, 13.6%	<ul style="list-style-type: none"> Increase in risk-weighted assets due to model and regulatory prescribed methodology changes of \$10.0 billion, combined with market movements and growth in gross loans and acceptances, partially offset by continued returns focused portfolio management.

September 2019 v March 2019

Cash earnings decreased by \$54 million or 6.9%, driven by lower Markets income and lower margins (ex Markets), partially offset by lower expenses and credit impairment charges.

Key movements	Key drivers
Net interest income down \$41m, 4.4%	<ul style="list-style-type: none"> Includes a decrease of \$23 million due to movements of economic hedges offset in other operating income. Underlying decrease of \$18 million reflects lower net interest margin (ex Markets), partially offset by increased gross loans and acceptances and customer deposits. Net interest margin (ex Markets) decreased by 7 basis points to 1.63% primarily driven by lower business lending margins due to a more competitive environment, combined with lower earnings on capital driven by a reduction in the earnings rate. Gross loans and acceptances increased by \$2.4 billion or 2.5% reflecting continued focus on growth segments. Customer deposits increased by \$1.8 billion or 1.8% reflecting increased domestic business at-call deposits, partially offset by a reduction in institutional term deposits.
Other operating income down \$69m, 8.6%	<ul style="list-style-type: none"> Includes an increase of \$23 million due to movements of economic hedges offset in net interest income. Underlying decrease of \$92 million primarily due to lower Markets income.
Operating expenses down \$17m, 2.6%	<ul style="list-style-type: none"> Productivity benefits achieved through continued simplification of the business and reduction in third party spend combined with lower performance-based compensation costs. Partially offset by continued investment in technology, increased spend to uplift customer experience and strengthen the compliance and control environment, and the impact of annual salary increases.
Credit impairment charge down \$16m	<ul style="list-style-type: none"> Decreased charges relating to the impairment of a small number of larger exposures.
Risk-weighted assets up \$8.5bn, 7.1%	<ul style="list-style-type: none"> Increased risk-weighted assets due to model and regulatory prescribed methodology changes of \$6.2 billion, combined with market movements and growth in gross loans and acceptances, partially offset by continued returns focused portfolio management.

New Zealand Banking

New Zealand Banking comprises the Consumer Banking, Wealth, Business, Agribusiness, Corporate and Insurance franchises and Markets Sales operations in New Zealand, operating under the 'Bank of New Zealand' brand. It excludes Bank of New Zealand's Markets Trading operations.

Results presented in New Zealand dollars. See page 47 for results in Australian dollars and page 97 for foreign exchange rates.

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Net interest income	1,933	1,848	4.6	960	973	(1.3)
Other operating income	604	566	6.7	319	285	11.9
Net operating income	2,537	2,414	5.1	1,279	1,258	1.7
Operating expenses	(963)	(946)	1.8	(488)	(475)	2.7
Underlying profit	1,574	1,468	7.2	791	783	1.0
Credit impairment charge	(110)	(76)	44.7	(66)	(44)	50.0
Cash earnings before tax	1,464	1,392	5.2	725	739	(1.9)
Income tax expense	(409)	(388)	5.4	(202)	(207)	(2.4)
Cash earnings	1,055	1,004	5.1	523	532	(1.7)

Volumes (\$bn)

Housing lending	43.0	39.8	8.0	43.0	41.3	4.1
Business lending	42.9	41.5	3.4	42.9	42.2	1.7
Other lending	1.3	1.3	-	1.3	1.4	(7.1)
Gross loans and acceptances	87.2	82.6	5.6	87.2	84.9	2.7
Average interest earning assets	86.1	81.6	5.5	87.1	85.0	2.5
Total assets	90.9	86.4	5.2	90.9	88.7	2.5
Customer deposits	61.5	58.5	5.1	61.5	59.7	3.0
Total risk-weighted assets	64.0	61.2	4.6	64.0	62.4	2.6

Performance Measures

Cash earnings on average assets	1.19%	1.19%	-	1.16%	1.22%	(6 bps)
Cash earnings on average risk-weighted assets	1.69%	1.70%	(1 bp)	1.65%	1.72%	(7 bps)
Net interest margin	2.25%	2.27%	(2 bps)	2.20%	2.30%	(10 bps)
Cost to income ratio	38.0%	39.2%	(120 bps)	38.2%	37.8%	40 bps

Asset Quality	Year to			Half Year to		
	Sep 19	Sep 18	Sep 19 v Sep 18	Sep 19	Mar 19	Sep 19 v Mar 19
90+ DPD and gross impaired assets to gross loans and acceptances	0.92%	0.46%	46 bps	0.92%	0.52%	40 bps
Credit impairment charge to gross loans and acceptances (annualised)	0.13%	0.09%	4 bps	0.15%	0.10%	5 bps

Market share ⁽¹⁾	As at		
	30 Sep 19	31 Mar 19	30 Sep 18
Housing lending	16.0%	15.9%	15.7%
Agribusiness	22.2%	22.0%	22.3%
Business lending	23.6%	23.6%	23.8%
Retail deposits	18.0%	18.1%	18.1%

Distribution	As at		
	30 Sep 19	31 Mar 19	30 Sep 18
Number of retail branches	153	153	153
Number of ATMs	657	642	633
Number of internet banking customers (no. '000s)	773	753	731

⁽¹⁾ Source: RBNZ.

New Zealand Banking (continued)

September 2019 v September 2018

Cash earnings increased by \$51 million or 5.1%, driven by higher revenue benefitting from growth in lending, partially offset by higher expenses and credit impairment charges.

Key movements	Key drivers
Net interest income up \$85m, 4.6%	<ul style="list-style-type: none"> Average interest earning assets increased by \$4.5 billion or 5.5% due to growth in housing and business lending. Housing lending continues to grow above system. Customer deposits increased by \$3.0 billion or 5.1% with growth mainly in on-demand deposits. Net interest margin decreased by 2 basis points primarily due to a lower earnings rate on deposits and capital due to the low interest rate environment.
Other operating income up \$38m, 6.7%	<ul style="list-style-type: none"> Due to higher sales of customer risk management products and increased line fees, partially offset by the reduction and removal of certain customer fees.
Operating expenses up \$17m, 1.8%	<ul style="list-style-type: none"> Increased spend to strengthen the compliance and control environment, partially offset by productivity benefits. Amortisation charges associated with investment in priority segments and digital capabilities.
Credit impairment charge up \$34m, 44.7%	<ul style="list-style-type: none"> Credit impairment charge to gross loans and acceptances increased by 4 basis points, mainly due to an increase in specific provisions raised on a small number of larger dairy exposures. 90+ DPD and gross impaired assets to gross loans and acceptances increased by 46 basis points mainly due to a small number of larger exposures in the dairy portfolio.
Total risk-weighted assets up \$2.8bn, 4.6%	<ul style="list-style-type: none"> Increase in risk-weighted assets due to model and methodology changes together with growth in gross loans and acceptances.

September 2019 v March 2019

Cash earnings decreased by \$9 million or 1.7%, driven by higher operating expenses and credit impairment charges, partially offset by higher revenue.

Key movements	Key drivers
Net interest income down \$13m, 1.3%	<ul style="list-style-type: none"> Average interest earning assets increased by \$2.1 billion or 2.5%, driven by growth in both housing and business lending. Housing continues to grow above system. Customer deposits increased by \$1.8 billion or 3.0%. Net interest margin decreased by 10 basis points primarily due to a lower earnings rate on deposits and capital due to the low interest rate environment.
Other operating income up \$34m, 11.9%	<ul style="list-style-type: none"> Due to higher sales of customer risk management products and increased line fees, partially offset by the reduction and removal of certain customer fees.
Operating expenses up \$13m, 2.7%	<ul style="list-style-type: none"> Increased spend to strengthen the compliance and control environment, partially offset by productivity benefits. Amortisation charges associated with investment in priority segments and digital capabilities.
Credit impairment charge up \$22m, 50.0%	<ul style="list-style-type: none"> Credit impairment charge to gross loans and acceptances increased by 5 basis points, mainly due to an increase in specific provisions raised on a small number of larger dairy exposures. 90+ DPD and gross impaired assets to gross loans and acceptances increased by 40 basis points mainly due to a small number of larger exposures in the dairy portfolio.
Total risk-weighted assets up \$1.6bn, 2.6%	<ul style="list-style-type: none"> Increase in risk-weighted assets due to model and methodology changes together with growth in gross loans and acceptances.

New Zealand Banking (continued)

Results presented in Australian dollars. See page 45 for results in local currency.

	Year to			Half Year to		
	Sep 19 \$m	Sep 18 \$m	Sep 19 v Sep 18 %	Sep 19 \$m	Mar 19 \$m	Sep 19 v Mar 19 %
Net interest income	1,828	1,698	7.7	908	920	(1.3)
Other operating income	571	520	9.8	302	269	12.3
Net operating income	2,399	2,218	8.2	1,210	1,189	1.8
Operating expenses	(911)	(869)	4.8	(461)	(450)	2.4
Underlying profit	1,488	1,349	10.3	749	739	1.4
Credit impairment charge	(103)	(70)	47.1	(62)	(41)	51.2
Cash earnings before tax	1,385	1,279	8.3	687	698	(1.6)
Income tax expense	(388)	(357)	8.7	(193)	(195)	(1.0)
Cash earnings	997	922	8.1	494	503	(1.8)

Impact of foreign exchange rate movements

Favourable / (unfavourable) 30 September 2019	Year since Sep 18		Half Year since Mar 19	
	\$m	Sep 19 v Sep 18 Ex FX %	\$m	Sep 19 v Mar 19 Ex FX %
Net interest income	52	4.6	2	(1.5)
Other operating income	16	6.7	-	12.3
Operating expenses	(26)	1.8	(1)	2.2
Credit impairment charge	(3)	42.9	1	53.7
Income tax expense	(11)	5.6	(1)	(1.5)
Cash earnings	28	5.1	1	(2.0)

Corporate Functions and Other

The Group's 'Corporate Functions and Other' business includes functions that support all businesses including Treasury, Technology and Operations, Support Units and Eliminations.

	Year to			Half Year to		
	Sep 19	Sep 18	Sep 19 v	Sep 19	Mar 19	Sep 19 v
	\$m	\$m	%	\$m	\$m	%
Net operating income ⁽¹⁾	685	563	21.7	331	354	(6.5)
Customer-related remediation ⁽²⁾	(1,207)	(249)	large	(863)	(344)	large
Net operating income	(522)	314	large	(532)	10	large
Operating expenses ⁽³⁾	(647)	(684)	(5.4)	(336)	(311)	8.0
Customer-related remediation ⁽²⁾	(364)	(111)	large	(244)	(120)	large
Capitalised software policy change ⁽²⁾	(494)	-	large	(494)	-	large
Restructuring-related costs ⁽²⁾	-	(755)	large	-	-	-
Underlying loss	(2,027)	(1,236)	64.0	(1,606)	(421)	large
Credit impairment charge	(96)	(274)	(65.0)	(23)	(73)	(68.5)
Cash deficit before tax and distributions	(2,123)	(1,510)	40.6	(1,629)	(494)	large
Income tax benefit	592	399	48.4	476	116	large
Cash deficit before distributions	(1,531)	(1,111)	37.8	(1,153)	(378)	large
Distributions	(83)	(100)	(17.0)	(31)	(52)	(40.4)
Cash deficit	(1,614)	(1,211)	33.3	(1,184)	(430)	large
Cash deficit (excluding large notable items)⁽²⁾	(166)	(420)	(60.5)	(61)	(105)	(41.9)

September 2019 v September 2018

Cash deficit increased by \$403 million including an increase of \$657 million in large notable items. Cash deficit (excluding large notable items) decreased by \$254 million mainly due to higher income from risk management activities, gains from asset sales and lower legal costs, including costs associated with the Royal Commission, and a lower level of collective provisions.

Key movements	Key drivers
Net operating income up \$122m, 21.7%	<ul style="list-style-type: none"> Excludes an increase of customer-related remediation of \$958 million. Higher income from risk management activities, gains from asset sales in the current period and non-recurring items in the prior period.
Operating expenses down \$37m, 5.4%	<ul style="list-style-type: none"> Excludes a decrease in large notable items of \$8 million. Lower provisions for regulatory and legal costs, including costs associated with the Royal Commission.
Credit impairment charge down \$178m, 65.0%	<ul style="list-style-type: none"> Lower level of collective provisions due to the non-repeat of mortgage model enhancements and a lower net level of FLAs raised for targeted sectors.
Distributions are down \$17m, 17.0%	<ul style="list-style-type: none"> Distributions reduced due to hybrid securities redeemed in December 2018.

September 2019 v March 2019

Cash deficit increased by \$754 million including an increase of \$798 million in large notable items. Cash deficit (excluding large notable items) decreased by \$44 million mainly due to lower income from liquidity management activities, higher regulatory and legal costs, partially offset by a lower level of collective provisions.

Key movements	Key drivers
Net operating income down \$23m, 6.5%	<ul style="list-style-type: none"> Excludes an increase of customer-related remediation of \$519 million. Lower income from liquidity management activities in Treasury.
Operating expenses up \$25m, 8.0%	<ul style="list-style-type: none"> Excludes an increase in large notable items of \$618 million. Higher regulatory and legal costs.
Credit impairment charge down \$50m, 68.5%	<ul style="list-style-type: none"> Lower levels of collective provisions mainly due to movements in centrally held FLAs.
Distributions are down \$21m, 40.4%	<ul style="list-style-type: none"> Distributions reduced due to hybrid securities redeemed in December 2018.

⁽¹⁾ Excluding customer-related remediation.

⁽²⁾ Refer to Section 2 Large notable items for further information.

⁽³⁾ Excluding large notable items.

Section 4

Financial Report

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Consolidated Financial Statements

Income Statement

	Note	Year to		Half Year to	
		Sep 19	Sep 18	Sep 19	Mar 19
		\$m	\$m	\$m	\$m
Interest income		29,203	28,543	14,222	14,981
Interest expense		(15,645)	(15,038)	(7,405)	(8,240)
Net interest income		13,558	13,505	6,817	6,741
Other income	3	4,373	5,596	1,945	2,428
Operating expenses	4	(9,827)	(9,910)	(5,236)	(4,591)
Credit impairment charge	8	(927)	(791)	(473)	(454)
Profit before income tax		7,177	8,400	3,053	4,124
Income tax expense	5	(2,087)	(2,455)	(868)	(1,219)
Net profit for the period from continuing operations		5,090	5,945	2,185	2,905
Net loss after tax for the period from discontinued operations	14	(289)	(388)	(79)	(210)
Net profit for the period		4,801	5,557	2,106	2,695
Profit attributable to non-controlling interests		3	3	2	1
Net profit attributable to owners of NAB		4,798	5,554	2,104	2,694
		cents	cents	cents	cents
Basic earnings per share		168.6	201.3	73.0	95.9
Diluted earnings per share		164.4	194.0	71.8	92.1
Basic earnings per share from continuing operations		178.9	215.6	75.8	103.5
Diluted earnings per share from continuing operations		173.9	207.2	74.4	99.1

Consolidated Financial Statements (continued)

Statement of Comprehensive Income

	Note	Year to		Half Year to	
		Sep 19 \$m	Sep 18 \$m	Sep 19 \$m	Mar 19 \$m
Net profit for the period from continuing operations		5,090	5,945	2,185	2,905
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	47	120
Revaluation of land and buildings		(2)	-	(2)	-
Currency adjustments on translation of other contributed equity		-	41	-	-
Equity instruments at fair value through other comprehensive income reserve:					
Revaluation gains		15	19	8	7
Tax on items transferred directly to equity		(50)	(18)	(21)	(29)
Total items that will not be reclassified to profit or loss		130	115	32	98
Items that will be reclassified subsequently to profit or loss					
Cash flow hedge reserve:					
Gains / (losses) on cash flow hedging instruments		284	(26)	193	91
Cost of hedging reserve		(260)	(76)	(71)	(189)
Foreign currency translation reserve:					
Currency adjustments on translation of foreign operations, net of hedging		110	15	(225)	335
Transfer to the income statement on disposal of foreign operations		(38)	(62)	(38)	-
Debt instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		37	(88)	(2)	39
Gains from sale transferred to the income statement		(2)	(9)	(1)	(1)
Change in loss allowance on debt instruments		-	5	1	(1)
Tax on items transferred directly to equity		(37)	38	(38)	1
Total items that will be reclassified subsequently to profit or loss		94	(203)	(181)	275
Other comprehensive income for the period, net of income tax		224	(88)	(149)	373
Total comprehensive income for the period from continuing operations		5,314	5,857	2,036	3,278
Net loss for the period from discontinued operations	14	(289)	(388)	(79)	(210)
Total comprehensive income for the period		5,025	5,469	1,957	3,068
Attributable to non-controlling interests		3	3	2	1
Total comprehensive income attributable to owners of NAB		5,022	5,466	1,955	3,067

Consolidated Financial Statements (continued)

Balance Sheet

	Note	As at		
		30 Sep 19 \$m	31 Mar 19 \$m	30 Sep 18 \$m
Assets				
Cash and liquid assets		55,457	54,044	50,188
Due from other banks		32,130	27,418	30,568
Trading instruments		96,828	84,043	78,228
Debt instruments		40,205	42,873	42,056
Other financial assets		7,110	8,827	10,041
Hedging derivatives		4,689	3,055	3,840
Loans and advances		587,749	585,730	567,981
Due from customers on acceptances		2,490	3,096	3,816
Property, plant and equipment		1,117	1,133	1,199
Goodwill and other intangible assets		5,576	5,872	5,787
Deferred tax assets		2,670	2,232	2,083
Other assets ⁽¹⁾		11,103	8,620	10,723
Total assets		847,124	826,943	806,510
Liabilities				
Due to other banks		34,273	36,960	38,192
Trading instruments		34,318	23,287	22,422
Other financial liabilities		33,283	32,973	30,437
Hedging derivatives		4,037	2,985	2,547
Deposits and other borrowings	10	522,085	518,692	503,145
Current tax liabilities		468	229	103
Provisions		3,507	2,568	2,196
Bonds, notes and subordinated debt		143,258	140,699	140,222
Other debt issues		6,482	6,509	6,158
Other liabilities		9,809	7,950	8,376
Total liabilities		791,520	772,852	753,798
Net assets		55,604	54,091	52,712
Equity				
Contributed equity	11	38,707	36,850	35,982
Reserves	11	306	458	46
Retained profits		16,583	16,776	16,673
Total equity (parent entity interest)		55,596	54,084	52,701
Non-controlling interest in controlled entities		8	7	11
Total equity		55,604	54,091	52,712

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

Consolidated Financial Statements (continued)

Condensed Cash Flow Statement

	Note	Year to		Half Year to	
		Sep 19 \$m	Sep 18 \$m	Sep 19 \$m	Mar 19 \$m
Cash flows from operating activities					
Interest received		29,471	28,340	14,533	14,938
Interest paid		(15,992)	(14,778)	(7,878)	(8,114)
Dividends received		28	49	18	10
Income tax paid		(2,251)	(2,634)	(1,066)	(1,185)
Other cash flows from operating activities before changes in operating assets and liabilities		(5,363)	5,222	(1,071)	(4,292)
Changes in operating assets and liabilities		4,517	(25,395)	(127)	4,644
Net cash provided by / (used in) operating activities⁽¹⁾		10,410	(9,196)	4,409	6,001
Cash flows from investing activities					
Movement in debt instruments					
Purchases		(22,567)	(22,018)	(9,428)	(13,139)
Proceeds from disposal and maturity		25,947	22,228	12,957	12,990
Proceeds from / (payments of) divestments and other debt and equity instruments		347	(132)	63	284
Purchase of property, plant, equipment and software		(1,135)	(1,051)	(680)	(455)
Proceeds from sale of property, plant, equipment and software, net of costs		21	19	18	3
Net cash provided by / (used in) investing activities		2,613	(954)	2,930	(317)
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		(31,001)	(22,951)	(11,939)	(19,062)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		27,159	32,139	9,844	17,315
Proceeds from issue of ordinary shares, net of costs		1,000	-	1,000	-
Repayments of other contributed equity		(722)	-	-	(722)
Proceeds from other debt issues, net of costs		1,858	-	-	1,858
Repayments of other debt issues		(799)	(41)	(35)	(764)
Dividends and distributions paid (excluding dividend reinvestment plan)		(3,266)	(4,221)	(1,495)	(1,771)
Net cash provided by / (used in) financing activities		(5,771)	4,926	(2,625)	(3,146)
Net increase / (decrease) in cash and cash equivalents		7,252	(5,224)	4,714	2,538
Cash and cash equivalents at beginning of period		37,946	39,800	41,354	37,946
Effects of exchange rate changes on balance of cash held in foreign currencies		1,828	3,370	958	870
Cash and cash equivalents at end of period	12	47,026	37,946	47,026	41,354

⁽¹⁾ The September 2019 full year 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.

Consolidated Financial Statements (continued)

Statement of Changes in Equity

Group - Yearly

	Contributed equity ⁽¹⁾	Reserves ⁽¹⁾	Retained profits	Total	Non- controlling interest in controlled entities	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2017	34,627	237	16,442	51,306	11	51,317
Net profit for the 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 ⁽²⁾						
Movement of non-controlling interest in controlled entities	-	-	-	-	1	1
Balance at 30 September 2018	35,982	46	16,673	52,701	11	52,712
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 ⁽²⁾						
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 11 Contributed equity and reserves.⁽²⁾ Changes in ownership interests in controlled entities that does not result in a loss of control.

Consolidated Financial Statements (continued)

Statement of Changes in Equity

Group - Half Yearly

	Contributed equity ⁽¹⁾	Reserves ⁽¹⁾	Retained profits	Total	Non- controlling interest in controlled entities	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2018	35,982	46	16,673	52,701	11	52,712
Net profit for the period from continuing operations	-	-	2,904	2,904	1	2,905
Net loss for the period from discontinued operations	-	-	(210)	(210)	-	(210)
Other comprehensive income for the period from continuing operations	-	290	83	373	-	373
Total comprehensive income for the period	-	290	2,777	3,067	1	3,068
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	957	-	-	957	-	957
Conversion of preference shares	750	-	-	750	-	750
Transfer from / (to) retained profits	-	(83)	83	-	-	-
Transfer from equity-based compensation reserve	136	(136)	-	-	-	-
Equity-based compensation	-	54	-	54	-	54
Dividends paid	-	-	(2,674)	(2,674)	(2)	(2,676)
Distributions on other equity instruments	-	-	(52)	(52)	-	(52)
Redemption of Trust Preferred Securities	(975)	287	(31)	(719)	-	(719)
Changes in ownership interests ⁽²⁾						
Movement of non-controlling interest in controlled entities	-	-	-	-	(3)	(3)
Balance at 31 March 2019	36,850	458	16,776	54,084	7	54,091
Net profit for the period from continuing operations	-	-	2,183	2,183	2	2,185
Net loss for the period from discontinued operations	-	-	(79)	(79)	-	(79)
Other comprehensive income for the period from continuing operations	-	(176)	27	(149)	-	(149)
Total comprehensive income for the period	-	(176)	2,131	1,955	2	1,957
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	1,846	-	-	1,846	-	1,846
Transfer from / (to) retained profits	-	(16)	16	-	-	-
Transfer from equity-based compensation reserve	11	(11)	-	-	-	-
Equity-based compensation	-	51	-	51	-	51
Dividends paid	-	-	(2,309)	(2,309)	(2)	(2,311)
Distributions on other equity instruments	-	-	(31)	(31)	-	(31)
Changes in ownership interests ⁽²⁾						
Movement of non-controlling interest in controlled entities	-	-	-	-	1	1
Balance at 30 September 2019	38,707	306	16,583	55,596	8	55,604

⁽¹⁾ Refer to Note 11 Contributed equity and reserves.

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

Notes to the Consolidated Financial Statements

1. Basis of Preparation

This preliminary financial report (the report) for the September 2019 full year has been prepared in accordance with the Australian Securities Exchange (ASX) Listing Rules and policies of the Australian Accounting Standards Board (AASB), but does not contain all disclosures of the type normally found within the Group's 2019 Annual Financial Report and is not designed or intended to be a suitable substitute.

This report should be read in conjunction with the Group's 2018 Annual Financial Report, the 31 March 2019 half year results, any public announcements made during the year and when released, the Group's 2019 Annual Financial Report.

Accounting policies

The accounting policies applied in this report are consistent with those applied in the Group's 2018 Annual Financial Report except for the adoption of AASB 15 *Revenue from Contracts with Customers*. AASB 15 supersedes AASB 111 *Construction Contracts* and AASB 118 *Revenue*, including related interpretations, and it applies to all revenue from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group adopted AASB 15 using the modified retrospective method, which recognises the cumulative effect of adoption through opening retained earnings on 1 October 2018. No material changes arose from the adoption of AASB 15.

There were no other substantial amendments to Australian Accounting Standards adopted during the period that have a material impact on the Group.

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

Critical accounting assumptions and estimates

The preparation of this report requires the use of critical accounting estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. No significant changes in the areas of estimates, judgements and assumptions have occurred in the September 2019 full year reporting period compared to those applied in the 2018 Annual Financial Report.

Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

Rounding of amounts

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

Notes to the Consolidated Financial Statements (continued)

2. Segment Information

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

The Group evaluates reportable segments' performance on the basis of cash earnings. Cash earnings is a non-IFRS key financial performance measure used by NAB, the investment community and NAB's major Australian bank peers with similar business portfolios. Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for items the Group considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the September 2019 full year 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.

Major customers

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

Reportable segments

Segment information	Year ended 30 September 2019					Total \$m
	Business and Private Banking \$m	Consumer Banking and Wealth \$m	Corporate and Institutional Banking \$m	New Zealand Banking \$m	Corporate Functions and Other ⁽¹⁾ \$m	
Net interest income ⁽²⁾	5,634	3,918	1,827	1,828	335	13,542
Other operating income ⁽²⁾	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⁾	(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 attributable to 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⁾ Corporate Functions and Other includes Group Eliminations.

⁽²⁾ Includes large notable items. Refer to Section 2 Large notable items for further information.

Notes to the Consolidated Financial Statements (continued)

2. Segment Information (continued)

Reportable segments (continued)

Segment information	Year ended 30 September 2018					Total \$m
	Business and Private Banking \$m	Consumer Banking and Wealth \$m	Corporate and Institutional Banking \$m	New Zealand Banking \$m	Corporate Functions and Other ⁽¹⁾ \$m	
Net interest income	5,539	3,964	1,882	1,698	384	13,467
Other operating income ⁽²⁾	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⁾	(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 attributable to 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

Segment information	Half Year ended 30 September 2019					Total \$m
	Business and Private Banking \$m	Consumer Banking and Wealth \$m	Corporate and Institutional Banking \$m	New Zealand Banking \$m	Corporate Functions and Other ⁽¹⁾ \$m	
Net interest income ⁽²⁾	2,826	2,018	893	908	163	6,808
Other operating income ⁽²⁾	516	681	735	302	(695)	1,539
Net operating income	3,342	2,699	1,628	1,210	(532)	8,347
Operating expenses ⁽²⁾	(1,150)	(1,521)	(632)	(461)	(1,074)	(4,838)
Underlying profit / (loss)	2,192	1,178	996	749	(1,606)	3,509
Credit impairment charge	(217)	(141)	(27)	(62)	(23)	(470)
Cash earnings / (deficit) before tax and distributions	1,975	1,037	969	687	(1,629)	3,039
Income tax (expense) / benefit	(597)	(309)	(242)	(193)	476	(865)
Cash earnings / (deficit) before distributions	1,378	728	727	494	(1,153)	2,174
Distributions	-	-	-	-	(31)	(31)
Cash earnings / (deficit)	1,378	728	727	494	(1,184)	2,143
Fair value and hedge ineffectiveness	(2)	(3)	24	5	22	46
Other non-cash earnings items	-	(6)	-	-	-	(6)
Net profit / (loss) for the year from continuing operations	1,376	719	751	499	(1,162)	2,183
Net loss attributable to discontinued operations	-	-	-	-	(79)	(79)
Net profit / (loss) attributable to the owners of NAB	1,376	719	751	499	(1,241)	2,104
Reportable segment assets	200,799	230,916	295,042	84,307	36,060	847,124

⁽¹⁾ Corporate Functions and Other includes Group Eliminations.⁽²⁾ Includes large notable items. Refer to Section 2 Large notable items for further information.

Notes to the Consolidated Financial Statements (continued)

2. Segment Information (continued)

Reportable segments (continued)

Segment information	Half Year ended 31 March 2019					Total \$m
	Business and Private Banking \$m	Consumer Banking and Wealth \$m	Corporate and Institutional Banking \$m	New Zealand Banking \$m	Corporate Functions and Other ⁽¹⁾ \$m	
Net interest income ⁽²⁾	2,808	1,900	934	920	172	6,734
Other operating income ⁽²⁾	521	708	804	269	(162)	2,140
Net operating income	3,329	2,608	1,738	1,189	10	8,874
Operating expenses ⁽²⁾	(1,115)	(1,530)	(649)	(450)	(431)	(4,175)
Underlying profit / (loss)	2,214	1,078	1,089	739	(421)	4,699
Credit impairment charge	(119)	(173)	(43)	(41)	(73)	(449)
Cash earnings / (deficit) before tax and distributions	2,095	905	1,046	698	(494)	4,250
Income tax (expense) / benefit	(633)	(267)	(265)	(195)	116	(1,244)
Cash earnings / (deficit) before distributions	1,462	638	781	503	(378)	3,006
Distributions	-	-	-	-	(52)	(52)
Cash earnings / (deficit)	1,462	638	781	503	(430)	2,954
Fair value and hedge ineffectiveness	(1)	3	(47)	7	(31)	(69)
Other non-cash earnings items	-	(13)	-	-	32	19
Net profit / (loss) for the year from continuing operations	1,461	628	734	510	(429)	2,904
Net loss attributable to discontinued operations	-	-	-	-	(210)	(210)
Net profit / (loss) attributable to the owners of NAB	1,461	628	734	510	(639)	2,694
Reportable segment assets	201,486	232,527	273,049	84,945	34,936	826,943

⁽¹⁾ Corporate Functions and Other includes Group Eliminations.

⁽²⁾ Includes large notable items. Refer to Section 2 Large notable items for further information.

Notes to the Consolidated Financial Statements (continued)

3. Other Income

	Year to		Half Year to	
	Sep 19 \$m	Sep 18 \$m	Sep 19 \$m	Mar 19 \$m
Gains less losses on financial instruments at fair value				
Trading instruments	2,320	743	1,113	1,207
Hedge ineffectiveness ⁽¹⁾	103	557	108	(5)
Financial instruments designated at fair value	(983)	225	(456)	(527)
Total gains less losses on financial instruments at fair value	1,440	1,525	765	675
Other operating income				
Dividend revenue	26	38	16	10
Banking fees	1,064	1,008	528	536
Money transfer fees	551	573	269	282
Fees and commissions ⁽²⁾	839	1,916	147	692
Investment management fees	297	312	151	146
Other income	156	224	69	87
Total other operating income	2,933	4,071	1,180	1,753
Total other income	4,373	5,596	1,945	2,428

Customer-related remediation

In the September 2019 full year, the Group recognised charges for customer-related remediation matters of \$1,135 million (\$249 million in the September 2018 full year) 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 Partnerships, combined with the Wealth advice review
- banking-related matters, including matters where customers were incorrectly charged fees on certain fee-exempt transactions.

Customer-related remediation of \$833 million was recognised in the September 2019 half year (\$302 million in the March 2019 half year) as a reduction in fees and commissions.

⁽¹⁾ Represents hedge ineffectiveness of designated hedging relationships.

⁽²⁾ Includes customer-related remediation.

Notes to the Consolidated Financial Statements (continued)

4. Operating Expenses

	Year to		Half Year to	
	Sep 19 \$m	Sep 18 \$m	Sep 19 \$m	Mar 19 \$m
Personnel expenses				
Salaries and related on-costs	3,517	3,345	1,795	1,722
Superannuation costs-defined contribution plans	276	266	140	136
Performance-based compensation	407	622	151	256
Other expenses ⁽¹⁾	282	728	143	139
Total personnel expenses	4,482	4,961	2,229	2,253
Occupancy-related expenses				
Operating lease rental expense	447	451	222	225
Other expenses ⁽¹⁾	98	133	52	46
Total occupancy-related expenses	545	584	274	271
General expenses				
Fees and commission expense	540	612	270	270
Depreciation of property, plant and equipment	297	304	148	149
Amortisation of intangible assets ⁽²⁾	1,115	476	810	305
Advertising and marketing	200	226	104	96
Charge to provide for operational risk event losses ⁽³⁾	591	295	351	240
Communications, postage and stationery	179	206	88	91
Computer equipment and software	728	657	367	361
Data communication and processing charges	80	75	40	40
Professional fees ⁽¹⁾	632	799	336	296
Impairment losses recognised ⁽¹⁾	19	174	19	-
Other expenses ⁽¹⁾	419	541	200	219
Total general expenses	4,800	4,365	2,733	2,067
Total operating expenses	9,827	9,910	5,236	4,591

Customer-related remediation

In the September 2019 full year, the Group recognised costs for customer-related remediation matters of \$364 million (\$111 million in the September 2018 full year) as a charge to provide for operational risk event losses. This includes costs for implementing remediation processes.

In the September 2019 half year, customer-related remediation of \$244 million was recognised (\$120 million in the March 2019 half year) as a charge to provide for operational risk event losses.

Capitalised software policy change

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

Restructuring

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

The restructuring-related costs are reflected in other operating expenses as:

- \$427 million of personnel expenses
- \$35 million of occupancy-related expenses
- \$146 million of impairment losses recognised
- \$125 million of professional fees
- \$22 million of other expenses.

⁽¹⁾ Includes restructuring-related costs.

⁽²⁾ Includes a change to the application of the software capitalisation policy.

⁽³⁾ Includes customer-related remediation.

Notes to the Consolidated Financial Statements (continued)

5. Income Tax Expense

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

	Year to		Half Year to	
	Sep 19	Sep 18	Sep 19	Mar 19
	\$m	\$m	\$m	\$m
Profit before income tax	7,177	8,400	3,053	4,124
Prima facie income tax expense at 30%	2,153	2,520	916	1,237
Tax effect of permanent differences				
Assessable foreign income	7	7	5	2
Foreign tax rate differences	(67)	(38)	(39)	(28)
Foreign branch income not assessable	(50)	(61)	(23)	(27)
Over provision in prior years	(1)	(3)	(1)	-
Offshore banking unit income	(53)	(62)	(24)	(29)
Restatement of deferred tax balances for tax rate changes	2	-	1	1
Non-deductible hybrid distributions	73	72	37	36
Losses not tax effected	2	4	2	-
Other	21	16	(6)	27
Total income tax expense	2,087	2,455	868	1,219
Effective tax rate (%)	29.1%	29.2%	28.4%	29.6%

Notes to the Consolidated Financial Statements (continued)

6. Dividends and Distributions

The Group has recognised the following dividends on ordinary shares:

	Year to			
	Sep 19		Sep 18	
	Amount per share	Total amount	Amount per share	Total amount
	cents	\$m	cents	\$m
Dividends on ordinary shares				
Final dividend (in respect of prior year)	99	2,707	99	2,659
Interim dividend (in respect of current year)	83	2,333	99	2,696
Deduct: Bonus shares in lieu of dividend	n/a	(57)	n/a	(56)
Dividends paid by NAB	n/a	4,983	n/a	5,299
Add: Dividends paid to non-controlling interest in controlled entities	n/a	4	n/a	4
Total dividend paid	n/a	4,987	n/a	5,303

Franked dividends paid during the period were fully franked at a tax rate of 30% (2018: 30%).

Final dividend

On 7 November 2019, the directors determined the following dividend:

	Amount per share	Franked amount per share	Total amount
	cents	%	\$m
Final dividend determined in respect of the year ended 30 September 2019	83	100	2,393

The final 2019 ordinary dividend is payable on 12 December 2019. The Group will offer a 1.5% discount on the Dividend Reinvestment Plan (DRP), 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.

	Year to			
	Sep 19		Sep 18	
	Amount per security ⁽¹⁾	Total amount	Amount per security ⁽¹⁾	Total amount
	\$	\$m	\$	\$m
Distributions on other equity instruments				
National Income Securities	3.12	62	3.02	60
Trust Preferred Securities ⁽²⁾	50.42	21	99.23	40
Total distributions on other equity instruments		83		100

Trust Preferred Securities (TPS) issued by National Capital Trust I and guaranteed (on a limited basis) by NAB were redeemed on 17 December 2018, their first optional redemption date. The TPS were redeemed for cash at its par value plus accrued distribution.

Dividend and distribution plans

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

The last date for receipt of election notices for the Dividend Reinvestment Plan and the Bonus Share Plan is 15 November 2019 at 5pm (Australian Eastern Daylight time).

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

⁽²⁾ \$A equivalent.

Notes to the Consolidated Financial Statements (continued)

7. Loans and Advances including Acceptances

	As at		
	30 Sep 19 \$m	31 Mar 19 \$m	30 Sep 18 \$m
Housing loans	343,915	346,292	339,540
Other term lending ⁽¹⁾	222,556	219,307	210,111
Asset and lease financing	12,763	12,633	12,428
Overdrafts ⁽¹⁾	5,820	5,522	5,304
Credit card outstandings	6,774	7,235	7,294
Other	6,703	6,920	6,822
Fair value adjustment	331	308	275
Gross loans and advances	598,862	598,217	581,774
Acceptances	2,490	3,096	3,816
Gross loans and advances including acceptances	601,352	601,313	585,590
<i>Represented by:</i>			
Loans and advances at fair value ⁽²⁾	6,761	8,388	9,845
Loans and advances at amortised cost	592,101	589,829	571,929
Acceptances	2,490	3,096	3,816
Gross loans and advances including acceptances	601,352	601,313	585,590
Unearned income and deferred net fee income	(452)	(368)	(435)
Provision for credit impairment	(3,900)	(3,731)	(3,513)
Net loans and advances including acceptances	597,000	597,214	581,642
Securitised loans and loans supporting covered bonds⁽³⁾	34,711	38,139	33,541

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 30 September 2019				
Housing loans	303,942	39,901	72	343,915
Other term lending	168,563	37,839	16,154	222,556
Asset and lease financing	12,230	-	533	12,763
Overdrafts	3,249	2,555	16	5,820
Credit card outstandings	5,717	1,057	-	6,774
Other	4,928	461	1,314	6,703
Fair value adjustment	307	24	-	331
Gross loans and advances	498,936	81,837	18,089	598,862
Acceptances	2,490	-	-	2,490
Gross loans and advances including acceptances	501,426	81,837	18,089	601,352
<i>Represented by:</i>				
Loans and advances at fair value	4,868	1,893	-	6,761
Loans and advances at amortised cost	494,068	79,944	18,089	592,101
Acceptances	2,490	-	-	2,490
Gross loans and advances including acceptances	501,426	81,837	18,089	601,352

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

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

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

Notes to the Consolidated Financial Statements (continued)

7. Loans and Advances including Acceptances (continued)

By product and geographic location	Australia \$m	New Zealand \$m	Other International \$m	Total Group \$m
As at 31 March 2019				
Housing loans	306,661	39,539	92	346,292
Other term lending ⁽¹⁾	165,527	38,849	14,931	219,307
Asset and lease financing	12,144	1	488	12,633
Overdrafts ⁽¹⁾	3,134	2,356	32	5,522
Credit card outstandings	6,121	1,114	-	7,235
Other	5,150	472	1,298	6,920
Fair value adjustment	283	26	(1)	308
Gross loans and advances	499,020	82,357	16,840	598,217
Acceptances	3,096	-	-	3,096
Gross loans and advances including acceptances	502,116	82,357	16,840	601,313
<i>Represented by:</i>				
Loans and advances at fair value	6,127	2,261	-	8,388
Loans and advances at amortised cost	492,893	80,096	16,840	589,829
Acceptances	3,096	-	-	3,096
Gross loans and advances including acceptances	502,116	82,357	16,840	601,313

By product and geographic location	Australia \$m	New Zealand \$m	Other International \$m	Total Group \$m
As at 30 September 2018				
Housing loans	303,007	36,422	111	339,540
Other term lending ⁽¹⁾	161,855	36,381	11,875	210,111
Asset and lease financing	11,938	4	486	12,428
Overdrafts ⁽¹⁾	3,149	2,124	31	5,304
Credit card outstandings	6,232	1,062	-	7,294
Other	4,789	455	1,578	6,822
Fair value adjustment	250	25	-	275
Gross loans and advances	491,220	76,473	14,081	581,774
Acceptances	3,816	-	-	3,816
Gross loans and advances including acceptances	495,036	76,473	14,081	585,590
<i>Represented by:</i>				
Loans and advances at fair value	7,259	2,586	-	9,845
Loans and advances at amortised cost	483,961	73,887	14,081	571,929
Acceptances	3,816	-	-	3,816
Gross loans and advances including acceptances	495,036	76,473	14,081	585,590

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

Notes to the Consolidated Financial Statements (continued)

8. Provision for Credit Impairment on Loans at Amortised Cost

	Year to		Half Year to	
	Sep 19	Sep 18	Sep 19	Mar 19
	\$m	\$m	\$m	\$m
New and increased provisions (net of collective provision releases)	1,154	1,057	588	566
Write-backs of specific provisions	(170)	(193)	(81)	(89)
Recoveries of specific provisions	(57)	(73)	(34)	(23)
Total charge to the income statement	927	791	473	454

Movement in provision for credit impairment on loans at amortised cost

Group - Yearly

	Stage 1	Stage 2	Stage 3		Total
	12-mth expected credit losses (ECL) Collective provision	Lifetime ECL not credit impaired Collective provision	Lifetime ECL credit impaired Collective provision	Lifetime ECL credit impaired Specific provision	
	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2017	313	1,819	403	689	3,224
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	296	(286)	(10)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(58)	147	(89)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(50)	52	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(2)	(34)	(114)	150	-
New and increased provisions (net of 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-mth ECL - collective provision	358	(348)	(10)	-	-
Transferred to Lifetime ECL not credit impaired - 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

Notes to the Consolidated Financial Statements (continued)

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

Group - Half Yearly

	Stage 1	Stage 2	Stage 3		Total
	12-mth ECL Collective provision	Lifetime ECL not credit impaired Collective provision	Lifetime ECL credit impaired Collective provision	Lifetime ECL credit impaired Specific provision	
	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2018	324	2,125	391	673	3,513
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	243	(235)	(8)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(37)	87	(50)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(1)	(58)	59	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(55)	(86)	142	-
New and increased provisions (net of collective provision releases)	(175)	312	159	270	566
Write-backs of specific provisions	-	-	-	(89)	(89)
Write-offs from specific provisions	-	-	-	(281)	(281)
Foreign currency translation and other adjustments	3	16	2	1	22
Balance at 31 March 2019	356	2,192	467	716	3,731
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	257	(250)	(7)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(37)	83	(46)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(1)	(58)	59	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(33)	(100)	134	-
New and increased provisions (net of collective provision releases)	(205)	305	151	337	588
Write-backs of specific provisions	-	-	-	(81)	(81)
Write-offs from specific provisions	-	-	-	(319)	(319)
Foreign currency translation and other adjustments	(1)	(12)	(1)	(5)	(19)
Balance at 30 September 2019	368	2,227	523	782	3,900

Notes to the Consolidated Financial Statements (continued)

9. Asset Quality

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

	As at			
	30 Sep 19	31 Mar 19	30 Sep 18	
Summary of total impaired assets	\$m	\$m	\$m	\$m
Impaired assets	1,965	1,540		1,433
Restructured loans	7	24		88
Gross impaired assets ⁽¹⁾⁽²⁾	1,972	1,564		1,521
Specific provisions for credit impairment	(782)	(717)		(675)
Net impaired assets	1,190	847		846

	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
Movement in gross impaired assets				
Balance at 1 April 2018	1,195	356	58	1,609
New	325	76	-	401
Written-off	(101)	(26)	(9)	(136)
Returned to performing, repaid or no longer impaired	(189)	(150)	(6)	(345)
Foreign currency translation adjustments	-	(9)	1	(8)
Balance at 30 September 2018	1,230	247	44	1,521
New	439	97	-	536
Written-off	(86)	(20)	(1)	(107)
Returned to performing, repaid or no longer impaired	(356)	(36)	(6)	(398)
Foreign currency translation adjustments	-	12	-	12
Balance at 31 March 2019	1,227	300	37	1,564
New	388	419	-	807
Written-off	(130)	(18)	(2)	(150)
Returned to performing, repaid or no longer impaired	(155)	(78)	-	(233)
Foreign currency translation adjustments	-	(15)	(1)	(16)
Gross impaired assets as at 30 September 2019	1,330	608	34	1,972

The 90+ days past due loans below are not classified as impaired assets and therefore are not included in the above summary.

	As at			
	30 Sep 19	31 Mar 19	30 Sep 18	
90+ days past due loans - by geographic location	\$m	\$m	\$m	\$m
Australia	3,457	3,062		2,527
New Zealand	136	125		104
Other International	10	19		17
90+ days past due loans	3,603	3,206		2,648

⁽¹⁾ September 2018 includes \$2 million (NZ\$3 million) of New Zealand Banking dairy exposures that were assessed as no loss based on security held. Collective provisions are held against these loans.

⁽²⁾ Gross impaired assets include \$5 million (March 2019: \$7 million, September 2018: \$16 million) of gross impaired other financial assets at fair value.

Notes to the Consolidated Financial Statements (continued)

10. Deposits and Other Borrowings

	As at		
	30 Sep 19 \$m	31 Mar 19 \$m	30 Sep 18 \$m
Term deposits	160,383	172,347	163,166
On-demand and short-term deposits	210,557	197,501	195,040
Certificates of deposit	40,875	43,877	43,962
Deposits not bearing interest ⁽¹⁾	53,672	51,886	50,767
Borrowings	30,092	25,920	27,021
Securities sold under agreements to repurchase	31,362	32,465	27,732
Fair value adjustment	9	7	2
Total deposits and other borrowings	526,950	524,003	507,690
<i>Represented by:</i>			
Total deposits and other borrowings at fair value	4,865	5,311	4,545
Total deposits and other borrowings at amortised cost	522,085	518,692	503,145
Total deposits and other borrowings	526,950	524,003	507,690

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 30 September 2019				
Term deposits	122,318	32,386	5,679	160,383
On-demand and short-term deposits	182,234	20,273	8,050	210,557
Certificates of deposit	30,769	1,255	8,851	40,875
Deposits not bearing interest ⁽¹⁾	47,857	5,811	4	53,672
Borrowings	25,902	3,283	907	30,092
Securities sold under agreements to repurchase	1,032	-	30,330	31,362
Fair value adjustment	-	9	-	9
Total deposits and other borrowings	410,112	63,017	53,821	526,950
<i>Represented by:</i>				
Total deposits and other borrowings at fair value	-	4,865	-	4,865
Total deposits and other borrowings at amortised cost	410,112	58,152	53,821	522,085
Total deposits and other borrowings	410,112	63,017	53,821	526,950

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 31 March 2019				
Term deposits	131,647	32,883	7,817	172,347
On-demand and short-term deposits	170,934	20,250	6,317	197,501
Certificates of deposit	33,316	1,561	9,000	43,877
Deposits not bearing interest ⁽¹⁾	46,121	5,758	7	51,886
Borrowings	22,236	3,128	556	25,920
Securities sold under agreements to repurchase	2,689	-	29,776	32,465
Fair value adjustment	-	7	-	7
Total deposits and other borrowings	406,943	63,587	53,473	524,003
<i>Represented by:</i>				
Total deposits and other borrowings at fair value	-	5,311	-	5,311
Total deposits and other borrowings at amortised cost	406,943	58,276	53,473	518,692
Total deposits and other borrowings	406,943	63,587	53,473	524,003

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

Notes to the Consolidated Financial Statements (continued)

10. Deposits and Other Borrowings (continued)

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

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

Notes to the Consolidated Financial Statements (continued)

11. Contributed Equity and Reserves

	As at		
	30 Sep 19	31 Mar 19	30 Sep 18
	\$m	\$m	\$m
Contributed equity			
Issued and paid-up ordinary share capital			
Ordinary shares, fully paid	36,762	34,905	33,062
Other contributed equity			
National Income Securities	1,945	1,945	1,945
Trust Preferred Securities	-	-	975
Total contributed equity	38,707	36,850	35,982

	Year to		Half Year to	
	Sep 19	Sep 18	Sep 19	Mar 19
	\$m	\$m	\$m	\$m
Movement in issued and paid-up ordinary share capital				
Balance at beginning of period	33,062	31,707	34,905	33,062
Shares issued:				
Dividend reinvestment plan	1,803	1,182	846	957
Dividend reinvestment plan underwritten allotments	1,000	-	1,000	-
Conversion of preference shares	750	-	-	750
Transfer from equity-based compensation reserve	147	173	11	136
Balance at end of period	36,762	33,062	36,762	34,905

	As at		
	30 Sep 19	31 Mar 19	30 Sep 18
	\$m	\$m	\$m
Reserves			
Foreign currency translation reserve	20	283	(343)
Asset revaluation reserve	80	82	82
Cash flow hedge reserve	201	74	10
Cost of hedging reserve	(235)	(191)	(53)
Equity-based compensation reserve	190	160	243
Debt instruments at fair value through other comprehensive income reserve	46	47	22
Equity instruments at fair value through other comprehensive income reserve	4	3	85
Total reserves	306	458	46

Notes to the Consolidated Financial Statements (continued)

12. Notes to the Condensed Cash Flow Statement

(a) Reconciliation of cash and cash equivalents

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

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

	As at		
	30 Sep 19	31 Mar 19	30 Sep 18
	\$m	\$m	\$m
Cash and cash equivalents			
Assets			
Cash and liquid assets	55,457	54,044	50,188
Treasury and other eligible bills	795	1,321	672
Due from other banks (excluding mandatory deposits with supervisory central banks)	23,705	20,153	24,372
Total cash and cash equivalents assets	79,957	75,518	75,232
Liabilities			
Due to other banks	(32,931)	(34,164)	(37,286)
Total cash and cash equivalents	47,026	41,354	37,946

(b) Non-cash financing and investing transactions

	Year to		Half Year to	
	Sep 19	Sep 18	Sep 19	Mar 19
	\$m	\$m	\$m	\$m
New share issues				
Dividend reinvestment plan	1,803	1,182	846	957
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 \$764 million CPS was redeemed.

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities

(i) General

From time to time the Group is exposed to contingent risks and liabilities arising from the conduct of its business including:

- actual and potential disputes, claims and legal proceedings
- investigations into past conduct, including actual and potential regulatory breaches, carried out by regulatory authorities on either an industry-wide or 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 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.

(ii) Legal proceedings

Bank Bill Swap Reference Rate US class action

In August 2016, a class action complaint was filed in the United States District Court for the Southern District of New York regarding alleged conduct relating to the Bank Bill Swap Reference Rate. 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.

(iii) 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

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

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.

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. The potential outcome and total costs associated with this matter remain uncertain.

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

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 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

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

service conduct. The Commissioner informed ASIC that in his opinion, multiple entities may 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.

(iv) 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.

Notes to the Consolidated Financial Statements (continued)

14. Discontinued Operations

The results set out below relate to the discontinued operations of the Group's life insurance business sale to Nippon Life and the UK Banking operations related to the CYBG demerger which occurred in the 2016 financial year. During the September 2019 full year, a net loss of \$289 million was recognised in discontinued operations relating to customer-related remediation and additional costs associated with the life insurance business sale. Refer to *Note 13 Contingent liabilities* for further information.

Analysis of loss for the full year from discontinued operations

	Year to	
	Sep 19	Sep 18
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)

Notes to the Consolidated Financial Statements (continued)

15. Events Subsequent to Reporting Date

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.

Compliance Statement

The preliminary final report for the year ended 30 September 2019 is prepared:

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

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



Louise Thomson
Company Secretary
7 November 2019

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Section 5

Supplementary Information

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1. Australian Banking and Wealth

	Year to			Half Year to		
	Sep 19	Sep 18	Sep 19 v	Sep 19	Mar 19	Sep 19 v
	\$m	\$m	Sep 18 %	\$m	\$m	Mar 19 %
Net interest income						
Housing lending	3,400	3,450	(1.4)	1,803	1,597	12.9
Business lending	3,803	3,588	6.0	1,897	1,906	(0.5)
Other banking products	838	938	(10.7)	408	430	(5.1)
Deposits	3,405	3,333	2.2	1,672	1,733	(3.5)
NAB risk management	(67)	76	large	(44)	(23)	91.3
Total net interest income	11,379	11,385	(0.1)	5,736	5,643	1.6
Other operating income						
Housing lending	234	245	(4.5)	122	112	8.9
Business lending	720	701	2.7	351	369	(4.9)
Other banking products	837	902	(7.2)	412	425	(3.1)
Deposits	56	57	(1.8)	28	28	-
Customer risk management	611	651	(6.1)	310	301	3.0
NAB risk management	493	384	28.4	215	278	(22.7)
Wealth income	1,004	1,112	(9.7)	490	514	(4.7)
Total other operating income	3,955	4,052	(2.4)	1,928	2,027	(4.9)
Credit impairment charge						
Specific credit impairment charge	554	440	25.9	283	271	4.4
Collective credit impairment charge / (write-back)	166	(5)	large	102	64	59.4
Total credit impairment charge	720	435	65.5	385	335	14.9
Housing lending	230	94	large	142	88	61.4
Business lending	254	83	large	151	103	46.6
Other banking products	236	258	(8.5)	92	144	(36.1)
Total credit impairment charge	720	435	65.5	385	335	14.9
Net interest margin						
Housing lending net interest margin	1.23%	1.28%	(5 bps)	1.30%	1.16%	14 bps
Business lending net interest margin	1.89%	1.90%	(1 bp)	1.86%	1.92%	(6 bps)
Volumes (\$bn)						
Housing lending	304.0	303.1	0.3	304.0	306.8	(0.9)
Business lending	206.5	196.3	5.2	206.5	202.9	1.8
Other lending	9.5	10.3	(7.8)	9.5	10.0	(5.0)
Gross loans and acceptances	520.0	509.7	2.0	520.0	519.7	0.1
Customer deposits	361.7	351.1	3.0	361.7	359.3	0.7
Market share	As at			As at		
	30 Sep 19	31 Mar 19		30 Sep 19	31 Mar 19	30 Sep 18
Business lending ⁽¹⁾	22.1%	22.4%				
Business lending ⁽²⁾	20.9%	21.2%				
Business deposits ⁽¹⁾	18.9%	19.4%				
Housing lending ⁽¹⁾	15.1%	15.4%				
Household deposits ⁽¹⁾	13.6%	13.8%				
Distribution						
Number of branches and business banking centres	701	713	719			
Number of ATMs ⁽³⁾	944	926	2,695			
Number of internet banking customers (million) ⁽⁴⁾	4.89	4.73	4.56			

⁽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.

⁽²⁾ Source: RBA Financial System. The collection data is aligned to the new regulatory definitions set by APRA. APRA have published comparatives restating March 2019 only.

⁽³⁾ Prior periods include RediATMs of 1,773 as at 30 September 2018 that are no longer part of the NAB ATM network.

⁽⁴⁾ Internet Banking Customers has been restated to reflect the number of registrations at an individual customer level rather than at a relationship group. Prior periods have increased by 0.27 million for 30 September 2018 and 0.30 million for 31 March 2019.

1. Australian Banking and Wealth (continued)

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

Movement in FUM/A (\$m)⁽²⁾	As at Sep 18	Inflows	Outflows	Netflows	Other⁽³⁾	As at Sep 19	Sep 19 v Sep 18 %
Retail	60,698	5,598	(9,201)	(3,603)	3,667	60,762	0.1
Offsale Products	8,419	227	(1,396)	(1,169)	495	7,745	(8.0)
Business & Corporate Superannuation	50,028	5,483	(6,292)	(809)	2,334	51,553	3.0
JBWere	25,538	6,057	(2,534)	3,523	1,102	30,163	18.1
Total	144,683	17,365	(19,423)	(2,058)	7,598	150,223	3.8

Movement in AUM (\$m)⁽⁴⁾							
Portfolio Management	146,720	13,292	(21,686)	(8,394)	8,117	146,443	(0.2)
Investment Management	59,984	22,725	(27,944)	(5,219)	303	55,068	(8.2)
Total	206,704	36,017	(49,630)	(13,613)	8,420	201,511	(2.5)

Movement in FUM/A (\$m)⁽²⁾	As at Mar 19	Inflows	Outflows	Netflows	Other⁽³⁾	As at Sep 19	Sep 19 v Mar 19 %
Retail	58,924	3,282	(4,961)	(1,679)	3,517	60,762	3.1
Offsale Products	7,945	126	(781)	(655)	455	7,745	(2.5)
Business & Corporate Superannuation	49,767	2,973	(3,423)	(450)	2,236	51,553	3.6
JBWere	26,594	3,780	(1,512)	2,268	1,301	30,163	13.4
Total	143,230	10,161	(10,677)	(516)	7,509	150,223	4.9

Movement in AUM (\$m)⁽⁴⁾							
Portfolio Management	143,836	8,389	(13,063)	(4,674)	7,281	146,443	1.8
Investment Management	59,039	12,365	(15,911)	(3,546)	(425)	55,068	(6.7)
Total	202,875	20,754	(28,974)	(8,220)	6,856	201,511	(0.7)

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

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

⁽³⁾ Includes investment earnings and other client transactions including distributions and the divestment of a minority interest affiliate in the September 2019 half year (Investment Management: \$2.4 billion).

⁽⁴⁾ AUM represents the market value of funds for which the Group acts as funds adviser or investment manager.

2. Average Balance Sheet and Related Interest

Average Assets and Interest Income

	Year ended Sep 19			Year ended Sep 18		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
Average interest earning assets						
Due from other banks						
Australia ⁽¹⁾	16,537	210	1.3	12,576	191	1.5
New Zealand	3,671	72	2.0	4,606	79	1.7
Other International	14,790	224	1.5	23,710	364	1.5
Total due from other banks	34,998	506	1.4	40,892	634	1.6
Marketable debt securities						
Australia	82,062	2,075	2.5	76,455	1,911	2.5
New Zealand	7,176	144	2.0	5,582	118	2.1
Other International	11,076	116	1.0	11,095	117	1.1
Total marketable debt securities	100,314	2,335	2.3	93,132	2,146	2.3
Loans and advances - housing						
Australia	276,267	11,490	4.2	269,581	11,613	4.3
New Zealand	37,333	1,700	4.6	33,684	1,601	4.8
Other International	93	4	4.3	393	15	3.8
Total loans and advances - housing	313,693	13,194	4.2	303,658	13,229	4.4
Loans and advances - non-housing						
Australia	194,534	9,364	4.8	185,790	9,258	5.0
New Zealand	42,213	1,994	4.7	39,358	1,884	4.8
Other International	15,841	545	3.4	12,634	354	2.8
Total loans and advances - non-housing	252,588	11,903	4.7	237,782	11,496	4.8
Other interest earning assets						
Australia ⁽¹⁾	7,707	174	n/a	5,090	244	n/a
New Zealand	737	44	n/a	461	26	n/a
Other International	48,799	1,047	n/a	45,642	768	n/a
Total other interest earning assets	57,243	1,265	n/a	51,193	1,038	n/a
Total average interest earning assets and interest income by:						
Australia	577,107	23,313	4.0	549,492	23,217	4.2
New Zealand	91,130	3,954	4.3	83,691	3,708	4.4
Other International	90,599	1,936	2.1	93,474	1,618	1.7
Total average interest earning assets and interest income	758,836	29,203	3.8	726,657	28,543	3.9

⁽¹⁾ September 2018 average balance has been restated to align to the presentation in the current period to reflect revised counterparty classifications.

2. Average Balance Sheet and Related Interest (continued)

Average Assets

	Year ended	
	Sep 19 \$m	Sep 18 \$m
Average non-interest earning assets		
Investments relating to life insurance business		
New Zealand	96	86
Total investments relating to life insurance business	96	86
Other assets	80,616	83,582
Total average non-interest earning assets	80,712	83,668
Provision for credit impairment		
Australia	(3,054)	(2,686)
New Zealand	(582)	(530)
Other International	(50)	(72)
Total provision for credit impairment	(3,686)	(3,288)
Total average assets	835,862	807,037

2. Average Balance Sheet and Related Interest (continued)

Average Liabilities and Interest Expense

	Year ended Sep 19			Year ended Sep 18		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
Average interest bearing liabilities						
Due to other banks						
Australia	21,802	309	1.4	25,255	381	1.5
New Zealand	2,418	18	0.7	2,305	21	0.9
Other International	14,513	311	2.1	15,594	203	1.3
Total due to other banks	38,733	638	1.6	43,154	605	1.4
On-demand and short-term deposits						
Australia	174,382	2,057	1.2	169,765	2,167	1.3
New Zealand	20,527	175	0.9	18,750	154	0.8
Other International	5,001	86	1.7	10,785	144	1.3
Total on-demand and short-term deposits	199,910	2,318	1.2	199,300	2,465	1.2
Certificates of deposit						
Australia	32,287	635	2.0	35,870	707	2.0
New Zealand	1,638	29	1.8	1,722	34	2.0
Other International	10,113	184	1.8	9,680	149	1.5
Total certificates of deposit	44,038	848	1.9	47,272	890	1.9
Term deposits						
Australia	128,627	3,198	2.5	120,488	3,042	2.5
New Zealand	32,594	1,087	3.3	30,985	1,061	3.4
Other International	7,405	165	2.2	7,990	158	2.0
Total term deposits	168,626	4,450	2.6	159,463	4,261	2.7
Other borrowings						
Australia	22,897	673	2.9	24,863	564	2.3
New Zealand	2,694	70	2.6	2,018	45	2.2
Other International	32,191	932	2.9	27,599	600	2.2
Total other borrowings	57,782	1,675	2.9	54,480	1,209	2.2
Bonds, notes and subordinated debt						
Australia	126,875	3,472	2.7	115,462	3,527	3.1
New Zealand	20,878	550	2.6	19,280	546	2.8
Other International	19,730	550	2.8	19,237	485	2.5
Total bonds, notes and subordinated debt	167,483	4,572	2.7	153,979	4,558	3.0
Other interest bearing liabilities						
Australia	8,272	1,144	n/a	6,304	968	n/a
Other International	-	-	-	567	82	n/a
Total other interest bearing liabilities	8,272	1,144	n/a	6,871	1,050	n/a
Total average interest bearing liabilities and interest expense by:						
Australia	515,142	11,488	2.2	498,007	11,356	2.3
New Zealand	80,749	1,929	2.4	75,060	1,861	2.5
Other International	88,953	2,228	2.5	91,452	1,821	2.0
Total average interest bearing liabilities and interest expense	684,844	15,645	2.3	664,519	15,038	2.3

2. Average Balance Sheet and Related Interest (continued)

Average Liabilities and Equity

	Year ended	
	Sep 19 \$m	Sep 18 \$m
Average non-interest bearing liabilities		
Deposits not bearing interest		
Australia ⁽¹⁾	46,270	44,226
New Zealand	5,656	5,013
Other International	5	10
Total deposits not bearing interest	51,931	49,249
Other liabilities	45,363	41,633
Total average non-interest bearing liabilities	97,294	90,882
Total average liabilities	782,138	755,401
Average equity		
Total equity (parent entity interest)	53,715	51,625
Non-controlling interest in controlled entities	9	11
Total average equity	53,724	51,636
Total average liabilities and equity	835,862	807,037

⁽¹⁾ Includes \$28,875 million (September 2018: \$28,134 million) of mortgage offset accounts.

2. Average Balance Sheet and Related Interest (continued)

Average Assets and Interest Income

	Half Year ended Sep 19			Half Year ended Mar 19		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
Average interest earning assets						
Due from other banks						
Australia ⁽¹⁾	17,526	98	1.1	15,517	112	1.4
New Zealand	3,592	33	1.8	3,750	39	2.1
Other International	13,268	85	1.3	16,320	139	1.7
Total due from other banks	34,386	216	1.3	35,587	290	1.6
Marketable debt securities						
Australia	84,352	984	2.3	79,760	1,091	2.7
New Zealand	7,002	65	1.9	7,352	79	2.2
Other International	10,746	52	1.0	11,406	64	1.1
Total marketable debt securities	102,100	1,101	2.2	98,518	1,234	2.5
Loans and advances - housing						
Australia	276,242	5,644	4.1	276,292	5,846	4.2
New Zealand	38,092	850	4.5	36,569	850	4.7
Other International	80	2	4.0	107	2	3.7
Total loans and advances - housing	314,414	6,496	4.1	312,968	6,698	4.3
Loans and advances - non-housing						
Australia	195,869	4,521	4.6	193,192	4,843	5.0
New Zealand	42,650	992	4.6	41,774	1,002	4.8
Other International	16,689	284	3.4	14,987	261	3.5
Total loans and advances - non-housing	255,208	5,797	4.5	249,953	6,106	4.9
Other interest earning assets						
Australia ⁽¹⁾	7,788	91	n/a	7,652	83	n/a
New Zealand	980	24	n/a	492	20	n/a
Other International	48,507	497	n/a	49,091	550	n/a
Total other interest earning assets	57,275	612	n/a	57,235	653	n/a
Total average interest earning assets and interest income by:						
Australia	581,777	11,338	3.9	572,413	11,975	4.2
New Zealand	92,316	1,964	4.2	89,937	1,990	4.4
Other International	89,290	920	2.1	91,911	1,016	2.2
Total average interest earning assets and interest income	763,383	14,222	3.7	754,261	14,981	4.0

⁽¹⁾ March 2019 average balance and interest has been restated to align to the presentation in the current period to reflect revised counterparty classifications.

2. Average Balance Sheet and Related Interest (continued)

Average Assets

	Half Year ended	
	Sep 19 \$m	Mar 19 \$m
Average non-interest earning assets		
Investments relating to life insurance business		
New Zealand	99	90
Total investments relating to life insurance business	99	90
Other assets	80,248	78,374
Total average non-interest earning assets	80,347	78,464
Provision for credit impairment		
Australia	(3,150)	(2,958)
New Zealand	(596)	(568)
Other International	(50)	(50)
Total provision for credit impairment	(3,796)	(3,576)
Total average assets	839,934	829,149

2. Average Balance Sheet and Related Interest (continued)

Average Liabilities and Interest Expense

	Half Year ended Sep 19			Half Year ended Mar 19		
	Average balance \$m	Interest \$m	Average rate %	Average balance \$m	Interest \$m	Average rate %
Average interest bearing liabilities						
Due to other banks						
Australia ⁽¹⁾	23,101	141	1.2	21,029	168	1.6
New Zealand	2,183	8	0.7	2,655	10	0.8
Other International	14,041	143	2.0	14,987	168	2.2
Total due to other banks	39,325	292	1.5	38,671	346	1.8
On-demand and short-term deposits						
Australia	177,823	970	1.1	170,921	1,087	1.3
New Zealand	20,874	87	0.8	20,177	88	0.9
Other International	5,298	43	1.6	4,702	43	1.8
Total on-demand and short-term deposits	203,995	1,100	1.1	195,800	1,218	1.2
Certificates of deposit						
Australia	31,550	282	1.8	33,029	353	2.1
New Zealand	1,691	14	1.7	1,585	15	1.9
Other International	9,471	97	2.0	10,758	87	1.6
Total certificates of deposit	42,712	393	1.8	45,372	455	2.0
Term deposits						
Australia	126,836	1,499	2.4	130,428	1,699	2.6
New Zealand	32,763	540	3.3	32,424	547	3.4
Other International	7,020	74	2.1	7,792	91	2.3
Total term deposits	166,619	2,113	2.5	170,644	2,337	2.7
Other borrowings						
Australia	23,561	341	2.9	22,230	332	3.0
New Zealand	2,958	38	2.6	2,429	32	2.6
Other International ⁽¹⁾	30,925	431	2.8	33,467	501	3.0
Total other borrowings	57,444	810	2.8	58,126	865	3.0
Bonds, notes and subordinated debt						
Australia	127,391	1,558	2.4	126,356	1,914	3.0
New Zealand	21,132	266	2.5	20,622	284	2.8
Other International	19,412	275	2.8	20,049	275	2.8
Total bonds, notes and subordinated debt	167,935	2,099	2.5	167,027	2,473	3.0
Other interest bearing liabilities						
Australia ⁽¹⁾	8,143	598	n/a	7,806	546	n/a
Total other interest bearing liabilities	8,143	598	n/a	7,806	546	n/a
Total average interest bearing liabilities and interest expense by:						
Australia	518,405	5,389	2.1	511,799	6,099	2.4
New Zealand	81,601	953	2.3	79,892	976	2.5
Other International	86,167	1,063	2.5	91,755	1,165	2.5
Total average interest bearing liabilities and interest expense	686,173	7,405	2.2	683,446	8,240	2.4

⁽¹⁾ March 2019 average balance and interest has been restated to align to the presentation in the current period to reflect revised counterparty and liability classifications.

2. Average Balance Sheet and Related Interest (continued)

Average Liabilities and Equity

	Half Year ended	
	Sep 19 \$m	Mar 19 \$m
Average non-interest bearing liabilities		
Deposits not bearing interest		
Australia ⁽¹⁾	46,536	46,002
New Zealand	5,751	5,561
Other International	4	6
Total deposits not bearing interest	52,291	51,569
Other liabilities	46,743	41,224
Total average non-interest bearing liabilities	99,034	92,793
Total average liabilities	785,207	776,239
Average equity		
Total equity (parent entity interest)	54,719	52,900
Non-controlling interest in controlled entities	8	10
Total average equity	54,727	52,910
Total average liabilities and equity	839,934	829,149

3. Net Interest Margins and Spreads⁽²⁾

Group	Year to			Half Year to		
	Sep 19 %	Sep 18 %	Sep 19 v Sep 18	Sep 19 %	Mar 19 %	Sep 19 v Mar 19
Net interest spread	1.56	1.66	(10 bps)	1.56	1.57	(1 bp)
Benefit of net free liabilities, provisions and equity	0.23	0.20	3 bps	0.22	0.22	-
Net interest margin - statutory basis	1.79	1.86	(7 bps)	1.78	1.79	(1 bp)

⁽¹⁾ Includes \$28,771 million (March 2019: \$28,980 million) of mortgage offset accounts.

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

4. Capital Adequacy

Regulatory capital is calculated in accordance with APS 111 *Capital Adequacy: Measurement of Capital*. The first table below is a reconciliation from total equity per the Group's balance sheet to capital for regulatory purposes, including CET1 capital, Tier 1 capital and Total capital. Capital for regulatory purposes is based on the Level 2 regulatory group which comprises National Australia Bank Limited and the entities it controls, excluding superannuation and funds management entities, insurance subsidiaries and securitisation special purpose vehicles to which assets have been transferred in accordance with the requirements for regulatory capital relief.

	As at		
	30 Sep 19	31 Mar 19	30 Sep 18
	\$m	\$m	\$m
Contributed equity	38,707	36,850	35,982
Reserves	306	458	46
Retained profits	16,583	16,776	16,673
Non-controlling interest in controlled entities	8	7	11
Total equity per consolidated balance sheet	55,604	54,091	52,712
Additional Tier 1 capital classified as equity before application of transitional arrangements	(1,945)	(1,945)	(2,920)
Non-controlling interest in controlled entities	(8)	(7)	(11)
Deconsolidation of entities outside the Level 2 regulatory group	(245)	(243)	(292)
Common Equity Tier 1 capital before regulatory adjustments	53,406	51,896	49,489
Goodwill and other intangible assets, net of tax	(2,876)	(2,874)	(2,863)
Investment in non-consolidated controlled entities	(416)	(431)	(431)
Deferred tax assets in excess of deferred tax liabilities	(2,296)	(1,952)	(1,744)
Capitalised expenses and deferred fee income	(698)	(787)	(741)
Software, net of tax	(2,878)	(2,992)	(2,858)
Defined benefit superannuation plan asset, net of tax	(34)	(32)	(34)
Change in own creditworthiness, net of tax	(19)	14	96
Cash flow hedge reserve	(201)	(74)	(10)
Equity exposures	(670)	(765)	(988)
Expected loss in excess of eligible provisions	(74)	-	(87)
Other	(106)	(68)	(70)
Common Equity Tier 1 capital	43,138	41,935	39,759
Basel III eligible Additional Tier 1 capital instruments	6,433	6,433	6,073
Transitional Additional Tier 1 capital instruments	1,817	1,817	2,422
Additional Tier 1 capital	8,250	8,250	8,495
Tier 1 capital	51,388	50,185	48,254
Basel III eligible Tier 2 capital instruments	8,527	5,232	5,227
Transitional Tier 2 capital instruments	472	496	1,119
Basel III eligible Tier 2 capital instruments issued by subsidiaries and held by third parties	422	447	426
IRB approach surplus provisions on non-defaulted exposures	281	134	-
Standardised approach general reserve for credit losses	46	45	66
Regulatory adjustments to Tier 2 capital	(90)	(94)	(84)
Tier 2 capital	9,658	6,260	6,754
Total capital	61,046	56,445	55,008
Risk-weighted assets			
Credit risk	351,646	345,397	331,381
Market risk	10,023	9,190	9,460
Operational risk	47,698	40,945	37,500
Interest rate risk in the banking book	6,404	7,673	11,343
Total risk-weighted assets	415,771	403,205	389,684
Risk-based regulatory capital ratios			
Common Equity Tier 1	10.38%	10.40%	10.20%
Tier 1	12.36%	12.45%	12.38%
Total capital	14.68%	14.00%	14.12%

4. Capital Adequacy (continued)

	Risk-Weighted Assets as at		
	30 Sep 19 \$m	31 Mar 19 \$m	30 Sep 18 \$m
Credit risk⁽¹⁾			
Subject to the internal ratings-based approach			
Corporate (including Small and Medium Enterprises (SME))	127,049	124,352	116,709
Sovereign	1,407	1,351	1,293
Bank	10,430	10,444	10,042
Residential mortgage	106,209	105,979	103,868
Qualifying revolving retail	3,494	3,822	3,993
Retail SME	6,467	6,575	6,531
Other retail	3,104	3,334	3,419
Total internal ratings-based approach	258,160	255,857	245,855
Specialised lending	58,320	59,506	60,444
Subject to standardised approach			
Residential mortgage	1,560	1,645	1,558
Corporate	4,798	4,733	4,670
Other	472	483	493
Total standardised approach	6,830	6,861	6,721
Other			
Securitisation exposures	4,865	4,739	4,598
Credit value adjustment	15,006	9,061	7,670
Central counterparty default fund contribution guarantee	306	823	1,138
Other ⁽²⁾	8,159	8,550	4,955
Total other	28,336	23,173	18,361
Total credit risk⁽³⁾	351,646	345,397	331,381
Market risk	10,023	9,190	9,460
Operational risk⁽⁴⁾	47,698	40,945	37,500
Interest rate risk in the banking book⁽⁵⁾	6,404	7,673	11,343
Total risk-weighted assets	415,771	403,205	389,684

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

⁽²⁾ Other includes non-lending assets and risk-weighted assets overlay adjustments for regulatory prescribed methodology requirements. The increase from September 2018 to March 2019 was largely driven by higher risk-weighted assets overlay adjustments reflecting a change in the recognition of certain off-balance sheet facilities.

⁽³⁾ Approximately \$6.9 billion of the increase in total credit risk risk-weighted assets from March 2019 to September 2019 is attributable to the introduction of the SA-CCR. The change mainly impacted risk-weighted assets for corporate and bank exposures, credit value adjustment and the central counterparty default fund contribution guarantee.

⁽⁴⁾ \$6.25 billion of the increase in operational risk risk-weighted assets from March 2019 to September 2019 is attributable to the operational risk regulatory capital add-on announced by APRA effective 30 September 2019.

⁽⁵⁾ The decrease from September 2018 to March 2019 was largely due to a change in rate shock methodology.

5. Earnings Per Share

Earnings per share	Year to			
	Basic		Diluted	
	Sep 19	Sep 18	Sep 19	Sep 18
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
Add: Net loss after tax for the period 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 number of ordinary shares (net of treasury shares)	2,797	2,709	2,797	2,709
Potential dilutive weighted average number of ordinary shares				
Convertible notes	-	-	133	104
Convertible preference shares	-	-	88	118
Share based payments	-	-	6	9
Total weighted average number of 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
	Half Year to			
	Basic		Diluted	
	Sep 19	Mar 19	Sep 19	Mar 19
Earnings per share				
Earnings (\$m)				
Net profit attributable to owners of NAB	2,104	2,694	2,104	2,694
Distributions on other equity instruments	(31)	(52)	(31)	(52)
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	-	-	98	67
Interest expense on convertible preference shares	-	-	30	60
Adjusted earnings	2,073	2,642	2,201	2,769
Add: Net loss after tax for the period from discontinued operations	79	210	79	210
Adjusted earnings from continuing operations	2,152	2,852	2,280	2,979
Weighted average number of ordinary shares (millions)				
Weighted average number of ordinary shares (net of treasury shares)	2,838	2,756	2,838	2,756
Potential dilutive weighted average number of ordinary shares				
Convertible notes	-	-	163	119
Convertible preference shares	-	-	59	126
Share based payments	-	-	6	6
Total weighted average number of ordinary shares	2,838	2,756	3,066	3,007
Earnings per share (cents) attributable to owners of NAB	73.0	95.9	71.8	92.1
Earnings per share (cents) from continuing operations	75.8	103.5	74.4	99.1

5. Earnings Per Share (continued)

Cash earnings per share	Year to			
	Basic		Diluted	
	Sep 19	Sep 18	Sep 19	Sep 18
Earnings (\$m)				
Cash earnings ⁽¹⁾	5,097	5,702	5,097	5,702
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	-	-	165	128
Interest expense on convertible preference shares	-	-	90	122
Adjusted cash earnings	5,097	5,702	5,352	5,952
Weighted average number of ordinary shares (millions)				
Weighted average number of ordinary shares (net of treasury shares)	2,797	2,709	2,797	2,709
Potential dilutive weighted average number of ordinary shares				
Convertible notes	-	-	133	104
Convertible preference shares	-	-	88	118
Share based payments	-	-	6	9
Total weighted average number of ordinary shares	2,797	2,709	3,024	2,940
Earnings per share (cents) attributable to owners of NAB	182.2	210.4	177.0	202.4

Cash earnings per share	Half Year to			
	Basic		Diluted	
	Sep 19	Mar 19	Sep 19	Mar 19
Earnings (\$m)				
Cash earnings ⁽¹⁾	2,143	2,954	2,143	2,954
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	-	-	98	67
Interest expense on convertible preference shares	-	-	30	60
Adjusted cash earnings	2,143	2,954	2,271	3,081
Weighted average number of ordinary shares (millions)				
Weighted average number of ordinary shares (net of treasury shares)	2,838	2,756	2,838	2,756
Potential dilutive weighted average number of ordinary shares				
Convertible notes	-	-	163	119
Convertible preference shares	-	-	59	126
Share based payments	-	-	6	6
Total weighted average number of ordinary shares	2,838	2,756	3,066	3,007
Earnings per share (cents) attributable to owners of NAB	75.5	107.2	74.1	102.5

6. Net Tangible Assets

	As at		
	30 Sep 19	31 Mar 19	30 Sep 18
Net tangible assets per ordinary share (\$) ⁽²⁾	16.68	16.46	16.09

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

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

7. Asset Funding

	As at			Sep 19 v Sep 18 %	Sep 19 v Mar 19 %
	30 Sep 19 \$m	31 Mar 19 \$m	30 Sep 18 \$m		
Core assets					
Loans and advances at amortised cost	592,101	589,829	571,929	3.5	0.4
Loans and advances at fair value	6,761	8,388	9,845	(31.3)	(19.4)
Acceptances	2,490	3,096	3,816	(34.7)	(19.6)
Other debt instruments at amortised cost	366	383	374	(2.1)	(4.4)
Total core assets	601,718	601,696	585,964	2.7	-
Funding and equity					
Customer deposits	424,612	421,735	408,974	3.8	0.7
Term wholesale funding	176,334	171,405	168,718	4.5	2.9
Certificates of deposit	40,875	43,877	43,962	(7.0)	(6.8)
Securities sold under agreements to repurchase	31,362	32,465	27,732	13.1	(3.4)
Due to other banks ⁽¹⁾	34,273	36,960	38,192	(10.3)	(7.3)
Other short-term liabilities	33,864	31,332	33,521	1.0	8.1
Total equity excluding preference shares and other contributed equity	53,659	52,146	49,793	7.8	2.9
Total funding liabilities and equity	794,979	789,920	770,892	3.1	0.6
Other liabilities					
Trading instruments	34,318	23,287	22,422	53.1	47.4
Hedging derivatives	4,037	2,985	2,547	58.5	35.2
Other liabilities	13,790	10,751	10,649	29.5	28.3
Total liabilities and equity	847,124	826,943	806,510	5.0	2.4

Funded Balance Sheet

	As at			Sep 19 v Sep 18 %	Sep 19 v Mar 19 %
	30 Sep 19 \$m	31 Mar 19 \$m	30 Sep 18 \$m		
Funding sources⁽²⁾					
Stable customer deposits ⁽³⁾	385,638	383,463	370,723	4.0	0.6
Term wholesale funding with greater than 12 months to maturity	139,067	141,581	140,882	(1.3)	(1.8)
Total equity excluding preference shares and other contributed equity	53,659	52,146	49,793	7.8	2.9
Total stable funding	578,364	577,190	561,398	3.0	0.2
Short-term wholesale funding	93,632	98,842	102,801	(8.9)	(5.3)
Term wholesale funding with less than 12 months to maturity	37,267	29,824	27,836	33.9	25.0
Other deposits ⁽⁴⁾	38,974	38,272	38,251	1.9	1.8
Total funding	748,237	744,128	730,286	2.5	0.6
Funded assets					
Liquid assets ⁽⁵⁾⁽⁶⁾	129,578	122,247	125,854	3.0	6.0
Other short-term assets ⁽⁶⁾⁽⁷⁾	17,403	20,386	14,393	20.9	(14.6)
Total short-term assets	146,981	142,633	140,247	4.8	3.0
Business and other lending ⁽⁸⁾	252,785	250,123	241,240	4.8	1.1
Housing lending	343,915	346,292	339,540	1.3	(0.7)
Other assets ⁽⁹⁾	4,556	5,080	9,259	(50.8)	(10.3)
Total long-term assets	601,256	601,495	590,039	1.9	-
Total funded assets	748,237	744,128	730,286	2.5	0.6

⁽¹⁾ Includes repurchase agreements due to other banks.

⁽²⁾ Excludes repurchase agreements, trading and hedging derivatives, and any accruals, receivables and payables that do not provide net funding.

⁽³⁾ Includes operational deposits, non-financial corporate deposits and retail / SME deposits. Excludes certain offshore deposits.

⁽⁴⁾ Includes non-operational financial institution deposits and certain offshore deposits.

⁽⁵⁾ Market value of liquid assets including HQLA and non-HQLA securities that are central bank repo-eligible.

⁽⁶⁾ Comparative information has been restated to align to the presentation in the current period to reflect a reallocation between liquid assets and other short-term assets.

⁽⁷⁾ Includes trade finance loans.

⁽⁸⁾ Excludes trade finance loans.

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

8. Number of Ordinary Shares

	Year to	
	Sep 19 No. '000	Sep 18 No. '000
Ordinary shares, fully paid		
Balance at beginning of period	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
Share based payments	5,084	5,845
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 period	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

	Half Year to	
	Sep 19 No. '000	Mar 19 No. '000
Ordinary shares, fully paid		
Balance at beginning of period	2,811,315	2,734,119
Shares issued:		
Conversion of convertible preference shares	-	30,185
Dividend reinvestment plan	32,626	40,639
Dividend reinvestment plan underwritten allotments	38,053	-
Bonus share plan	924	1,383
Share based payments	99	4,985
Paying up of partly paid shares	2	4
Total ordinary shares, fully paid	2,883,019	2,811,315
Ordinary shares, partly paid to 25 cents		
Balance at beginning of period	21	25
Paying up of partly paid shares	(2)	(4)
Total ordinary shares, partly paid to 25 cents	19	21
Total ordinary shares (including treasury shares)	2,883,038	2,811,336
Less: Treasury shares	(7,524)	(7,840)
Total ordinary shares (excluding treasury shares)	2,875,514	2,803,496

9. Exchange Rates

One Australian dollar equals	Income statement - average				Balance sheet - spot		
	Year to		Half Year to		As at		
	Sep 19	Sep 18	Sep 19	Mar 19	30 Sep 19	31 Mar 19	30 Sep 18
British pounds	0.5514	0.5654	0.5504	0.5524	0.5491	0.5424	0.5519
Euros	0.6238	0.6390	0.6197	0.6279	0.6172	0.6313	0.6202
United States dollars	0.7039	0.7607	0.6929	0.7150	0.6749	0.7092	0.7218
New Zealand dollars	1.0575	1.0883	1.0568	1.0585	1.0785	1.0440	1.0920

10. ASX Appendix 4E

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Condensed Cash Flow Statement (4E Item 5)	53
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Dividend Reinvestment Plan (4E Item 8)	63
Net tangible assets per ordinary share (4E Item 9)	95
Details of entities over which control has been gained or lost (4E Item 10)	n/a
The Group has not gained or lost control over any material entities during the year ended 30 September 2019.	
Details of associates and joint venture entities (4E item 11)	n/a
The Group held no material investments in associates or joint venture entities as at 30 September 2019.	
Other significant information (4E Item 12)	78
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Section 6

Glossary of Terms

Glossary of Terms

Terms	Description
12-months expected credit losses (ECL)	The portion of lifetime expected credit losses that represent the expected losses arising from default events that could occur within 12 months of the reporting date.
90+ days past due (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.
90+ DPD assets	90+ DPD assets consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due.
AASB	Australian Accounting Standards Board.
ADI	Authorised Deposit-taking Institution.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to ADIs.
ASIC	Australian Securities and Investments Commission.
Assets under management (AUM)	Represents the market value of funds for which the Group acts as funds adviser or investment manager.
ASX	Australian Securities Exchange Limited (or the market operated by it).
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.
Basel III	Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and is effective for ADIs from 1 January 2013.
BNZ	Bank of New Zealand.
Business lending	Lending to non-retail customers including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
Cash earnings	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 earnings on average risk-weighted assets	Calculated as cash earnings (annualised) divided by average risk-weighted assets. Average risk-weighted assets are calculated as the average of the current and previous two quarters' risk-weighted assets.
Cash return on equity (ROE)	Cash earnings after tax expressed as a percentage of average equity (adjusted), calculated on a cash earnings basis.
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 <i>Capital Adequacy: Measurement of Capital</i> .
Common Equity Tier 1 ratio	CET1 capital divided by risk-weighted assets.
Continuing operations	Continuing operations are the components of the Group which are not discontinued operations.
Core assets	Represents gross loans and advances including acceptances, financial assets at fair value, and other debt instruments at amortised cost.
Cost to income ratio (CTI)	Cost to income ratio (CTI) represents operating expenses as a percentage of operating revenue.
Customer deposits	The sum of interest bearing, non-interest bearing and term deposits (including retail and corporate deposits).
Customer Funding Index (CFI)	Customer deposits (excluding certain short dated institutional deposits used to fund liquid assets) divided by core assets.
Customer risk management	Activities to assist customers to manage their financial risks (predominantly foreign exchange and interest rate risks).
CYBG	CYBG PLC.
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.
Dividend payout ratio	Dividends paid on ordinary shares divided by cash earnings per share.
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.
Effective tax rate	Income tax expense divided by profit before income tax expense.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.
Fair value and hedge ineffectiveness	Represents volatility from the Group's assets and liabilities designated at fair value, hedge accounting ineffectiveness from designated accounting hedge relationships, or from economic hedges where hedge accounting has not been applied.
Forward looking adjustment (FLA)	The portion of expected credit losses that is derived from the forward looking outlook for targeted sectors.
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 excludes 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.
G-SIB	Global Systemically Important Bank.

Glossary of Terms (continued)

Terms	Description
General reserve for credit losses (GRCL)	An estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio of non-defaulted assets, as set out under APS 220 <i>Credit Quality</i> . The GRCL is calculated as a collective provision for credit impairment, excluding securitisation exposures and provision on default no loss assets. Where the GRCL (regulatory reserve) is greater than the accounting provision, the difference is covered with an additional top-up, created through an appropriation of retained profits to a non-distributable reserve.
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 <i>Liquidity</i> .
Housing lending	Loans secured by mortgages on 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.
Jaws	The difference between the percentage growth in revenue on the preceding period and the percentage growth in the expenses on the preceding period, calculated on a cash earnings basis.
Leverage ratio	Tier 1 capital divided by exposures as defined by APS 110 <i>Capital Adequacy</i> . 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.
NAB risk management	Management of interest rate risk in the banking book, wholesale funding and liquidity requirements and trading market risk to support the Group's franchises.
Net interest margin (NIM)	Net interest income derived on a cash earnings basis expressed as a percentage of average interest earning assets.
Net Stable Funding Ratio (NSFR)	NSFR is a measure announced as part of the Basel III liquidity reforms that 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.
Other banking products	Personal lending, credit cards (consumer and commercial), investment securities and margin lending.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
Regulatory specific provisions	In line with APRA's July 2017 guidance " <i>Provisions for regulatory purposes and AASB 9 Financial Instruments</i> ", regulatory specific provisions include collective provisions for facilities in Stage 2 with identified deterioration (that do not meet the two exception clauses per the APRA guidance), and Stage 3 in default. All other facilities are classified as GRCL.
Restructuring-related costs	Consist of personnel, occupancy, software impairment and other general charges recognised as part of acceleration of the Group's strategy announced in November 2017.
Risk-weighted assets	A quantitative measure of risk required by the APRA risk-based capital adequacy framework, covering credit risk for on and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
Royal Commission	The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry established on 14 December 2017 by the Governor-General of the Commonwealth of Australia to conduct a formal public inquiry into Australian financial institutions.
SA-CCR	Standardised approach for measuring counterparty credit risk exposures.
Securitisation	Structured finance technique which involves pooling, packaging cash-flows and converting financial assets into securities that can be sold to investors.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Statutory 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 <i>Capital Adequacy: Measurement of Capital</i> .
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.
Treasury shares	Shares issued to meet the requirements of employee incentive schemes which have not yet been distributed.

Glossary of Terms (continued)

Terms	Description
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 as presented in the table on page 3. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards.
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.

