

ANNUAL FINANCIAL REPORT 2016



National
Australia
Bank



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National Australia Bank Limited
ABN 12 004 044 937

This 2016 Annual Financial Report (Report) is lodged with the Australian Securities and Investments Commission and ASX Limited. National Australia Bank Limited (NAB) is publicly listed in Australia. The Report contains information prepared on the basis of the *Banking Act 1959* (Cth), *Corporations Act 2001* (Cth) and Accounting Standards and Interpretations issued by the Australian Accounting Standards Board. NAB no longer produces a concise report under section 314(2) of the *Corporations Act 2001* (Cth), and instead compiles a non-statutory Annual Review which can be viewed online at nabgroup.com/annualreports.

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

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

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

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Report of the Directors

Operating and financial review

The directors of National Australia Bank Limited (NAB) present their report, together with the financial statements of the Group, being NAB and its controlled entities, for the year ended 30 September 2016.

Certain definitions

The Group's financial year ends on 30 September. The financial year ended 30 September 2016 is referred to as 2016 and other financial years are referred to in a corresponding manner. The abbreviations \$m and \$bn represent millions and thousands of millions (i.e. billions) of Australian dollars respectively. Any discrepancies between total and sums of components in tables contained in this report are due to rounding.

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

Forward-looking statements

This report contains certain forward-looking statements. The words 'anticipate', 'believe', 'expect', 'project', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan' and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

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

Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained on page 10 under "Disclosure on Risk Factors".

Rounding of amounts

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

Principal activities

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

Significant changes in the state of affairs

In February 2016, NAB successfully completed the demerger and Initial Public Offering (IPO) of CYBG PLC (CYBG)⁽¹⁾. This separation has enabled NAB to pursue a strategy in the core markets of Australia and New Zealand which is driven by the vision to be Australia and New Zealand's most respected bank.

On 3 October 2016, the Group completed the sale of 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company (Nippon Life)⁽¹⁾. NAB has retained the remaining 20%. As part of this transaction, NAB has entered into a 20 year distribution agreement to provide life insurance products through its owned and aligned distribution networks. NAB Wealth has retained full ownership of its investment business which includes superannuation platforms, advice and asset management. As part of this sale process, NAB has also simplified and streamlined the structure of its superannuation business by way of a Successor Fund Merger, merging five of its super funds into one. In doing so, NAB has created Australia's largest retail

⁽¹⁾ Refer to Note 41 – Discontinued operations for further information.

superannuation fund, and the second largest fund in Australia's superannuation sector.

During 2016, a number of changes to the composition of the Board occurred:

- Mr Michael Chaney retired from his role as Chairman and non-executive director. The directors appointed Dr Ken Henry to succeed Mr Chaney as Chairman, effective 17 December 2015.
- Three independent non-executive directors were appointed: Ms Anne Loveridge on 15 December 2015, Mr Doug McKay on 1 February 2016 and Mr Philip Chronican on 2 May 2016. Ms Loveridge was elected by shareholders at the 2015 Annual General Meeting (AGM) and Mr McKay and Mr Chronican will stand for election at the 2016 AGM.
- Non-executive director Mr Paul Rizzo retired from the Board on 17 December 2015.

In March 2016, Mr Gary Lennon was appointed as Chief Financial Officer following the resignation of Mr Craig Drummond.

On 22 July 2016, NAB announced changes to its organisational structure as well as its Executive Leadership Team. These changes took effect in August 2016. Further information on the current Executive Leadership Team can be viewed online at www.nab.com.au.

The Group's Business

The Group is a financial services organisation with approximately 35,000 employees, operating through a network of more than 1,000 locations, with more than 582,000 shareholders and serving nearly 10 million customers.

The majority of the Group's financial services businesses operate in Australia and New Zealand, with branches located in Asia, the UK and the US. The Group's brands share a commitment to providing customers with quality products and services. The Group's relationships are based on the principles of providing quality help, guidance and advice to achieve better financial outcomes for customers.

In 2016 the Group operated the following divisions:

- *Australian Banking*, including personal banking and business banking, offers a range of banking products and services to retail and business customers, ranging from small and medium enterprises through to Australia's largest institutions. The Group's personal banking products can be accessed through various channels including NAB, NAB Broker, nabtrade and UBank. The Group's business banking products cater to customers' needs with specialist expertise in agribusiness, property, health, government, education and community. Australian Banking also comprises Fixed Income, Currencies and Commodities (FICC), specialised finance, debt markets, asset servicing and treasury.
- *NAB Wealth* provides superannuation, investment and insurance solutions to retail, corporate and institutional clients. It operates one of the largest networks of financial advisers in Australia under brands which include MLC, JBWere, JANA and Plum.
- *NZ Banking* comprises the Retail, Business, Agribusiness, Corporate & Institutional and Insurance franchises in New Zealand, operating under the 'BNZ' brand. It excludes BNZ's markets operations which form part of Australian Banking.

Report of the Directors

Operating and financial review (continued)

Strategic Highlights

Vision and Objectives

The Group is executing a refreshed strategy in pursuit of its vision of being Australia and New Zealand's most respected bank. To realise this vision, the Group strategy outlines three objectives to guide execution and measure performance:

1. Customers are advocates.
2. People are engaged.
3. Shareholder return on equity (ROE) is improved.

Outcomes for 2016

During the September 2016 full year, the Group made significant progress towards achieving these goals.

1. Focus on core Australia and New Zealand customers

During the September 2016 full year, the Group completed a major divestment program exiting some non-core assets, including:

- Full divestment of CYBG through a demerger and IPO in February 2016.
- Sale of 80% of NAB Wealth's life insurance business to Nippon Life with effect from September 2016.

This has simplified the Group and allows it to focus on its core Australian and New Zealand franchise markets.

2. Delivering a great customer experience

Traction on strategy is evidenced by:

- Improving the customer experience, examples of this include continued roll out of customer advocacy measurement through the Net Promoter Score (NPS).⁽¹⁾ Customer advocacy in priority customer segments is included in the organisation's goals and in executive scorecards. During the 2016 full year, NAB moved from third to first amongst major peers on priority segment NPS.⁽²⁾
- Addressing customer pain points by simplifying products, services and processes to improve the customer experience. During 2015 and 2016, over 100 pain points were addressed, contributing to the 4.6 million customers who have been positively impacted by the program since its initiation in 2014.
- New products and services to meet customer needs. For example, NAB QuickBiz loans offers quick online unsecured loans to small businesses.
- The Group has also streamlined its superannuation business, merging five of its super funds into one to create Australia's largest retail super fund. The MLC Super Fund will manage superannuation and retirement needs for more than a million Australians, making it easier for them to move between various products and features as their needs change throughout their lives.
- The national rollout of NAB's Personal Banking Origination Platform (PBOP) was completed in 2016 and the platform has now been rolled out to over 8,000 bankers. The customer experience for both secured and unsecured consumer lending will be greatly enhanced by greater visibility of application progress, fewer touches and improved turnaround times.

3. Engage our people

The Group is committed to:

- Identifying and nurturing talent to deliver great results for customers.
- Building great leaders to drive performance.
- Building people capability to perform at a higher level and support a culture that drives high performance. Performance is measured using a balanced scorecard approach.

As a result of this focus employee engagement improved from 56% for the September 2015 full year to 61% for the September 2016 full year.⁽³⁾ The Group engagement score is now above the "Global High Performing Organisations Benchmark".⁽³⁾

4. Deliver improved returns

Divesting CYBG and 80% of NAB Wealth's life insurance business, has tilted the portfolio towards business lines with higher returns where the Group has strong capability to compete.

The Group delivered a statutory ROE of 0.5%. The Group's cash ROE for continuing operations was 14.3%, compared with the Group's cash ROE of 14.8% in FY15.

5. Maintain and strengthen our foundations

The Group's strategy is supported by maintaining and strengthening its foundations of balance sheet strength (including capital, funding and liquidity), risk management capability (including credit and operating risk) and technology platforms.

Capital:

- In relation to capital, divestments and portfolio rebalancing have improved the Group's capital position.
- The Group remained well capitalised during the September 2016 full year and is operating above the Common Equity Tier 1 (CET1) target ratio of 8.75% - 9.25%, with a CET1 ratio of 9.77% as at 30 September 2016. These capital outcomes include the higher capital levels required to be held by the Group as a result of the Financial System Inquiry recommendations in relation to mortgage risk weights.

Funding:

- The Group's current long-term debt ratings are: National Australia Bank Limited AA-/Aa2/AA- (S&P Global Ratings (S&P)/Moody's Investors Service (Moody's)/Fitch Ratings (Fitch)); BNZ AA-/Aa3/AA- (S&P/Moody's/Fitch); and National Wealth Management Holdings Limited A+ (S&P).
- The Group maintains a well-diversified funding profile and has raised \$36.4 billion during the 2016 financial year.
- Excluding the impact of the CYBG demerger, the structural metrics remained stable over the 2016 financial year (refer to page 8).

Liquidity:

- The Group has maintained strong liquidity throughout the year. The September 2016 quarterly average Liquidity Coverage Ratio (LCR) was 121%, which is above the APRA requirement of 100%.

Net Stable Funding Ratio (NSFR):

- The Group NSFR is greater than 100% as at September 2016 based on draft APRA rules.
- A minimum 100% NSFR compliance is required by 1 January 2018.

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

⁽²⁾ Priority segments Net Promoter Score (NPS) is a simple average of the NPS scores of five priority segments: Mortgage Customers, Debt Free, Micro Business (<\$1m), Small Business (\$1m-<\$5m) and Medium Business (\$5-<\$50m). The Priority Segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research.

⁽³⁾ Speak Up, Step Up survey conducted by Right Management. The 2015 engagement figure has been restated to exclude discontinued operations.

Report of the Directors

Operating and financial review (continued)

5. Maintain and strengthen our foundations (continued)

Credit:

- Overall credit risk in the Group's portfolio remains sound.
- B&DDs are stable and below the long-term average.
- The Group maintains solid specific provision coverage at 38.3% of gross impaired assets as at September 2016. ⁽¹⁾
- Portfolio concentrations are managed within established Group risk appetite settings.

Operating Risk:

- The demerger of CYBG and the sale of 80% of NAB Wealth's life insurance business has simplified the Group and lowered operating risk.

The 2016 year has been a milestone year for the Group with the completion of major divestments including the demerger of CYBG and the sale of 80% of NAB Wealth's life insurance business to Nippon Life. In 2017, the Group will be a reshaped business – stronger, simpler and focused on helping its customers in Australia and New Zealand.

Financial performance summary

The following financial discussion and analysis discloses net profit on both a statutory and cash earnings basis. The statutory basis is presented in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards and is audited by the auditors in accordance with Australian Auditing Standards.

Information about cash earnings

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

Cash earnings is calculated by excluding discontinued operations and other items which are included within the statutory net profit attributable to owners of NAB.

Cash earnings does not purport to represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a cash flow statement. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards.

A full reconciliation between statutory net profit and cash earnings including a description of each non-cash earnings item is included on pages 73 to 76 in *Note 2 - Segment information* in the *Financial Report*.

⁽¹⁾ Consists only of impaired assets where a specific provision has been raised and excludes \$785 million (NZ\$823 million), March 2016 \$522 million (NZ\$579 million), September 2015 nil of NZ dairy exposures currently assessed as no loss based on collective provision and security held.

Report of the Directors

Operating and financial review (continued)

5 Year Financial Performance Summary

	Group ⁽¹⁾				
	2016 ⁽²⁾	2015 ⁽²⁾	2014	2013	2012
	\$m	\$m	\$m	\$m	\$m
Net interest income	12,930	12,462	13,415	13,351	13,242
Net investment and insurance income	647	701	542	479	740
Other income	4,545	5,274	4,899	4,373	3,733
Operating expenses	(8,331)	(8,189)	(10,227)	(8,305)	(8,822)
Charge to provide for bad and doubtful debts	(813)	(733)	(847)	(1,810)	(2,734)
Profit before income tax expense	8,978	9,515	7,782	8,088	6,159
Income tax expense	(2,553)	(2,709)	(2,598)	(2,725)	(2,076)
Net profit for the period from continuing operations	6,425	6,806	5,184	5,363	4,083
Profit or loss after tax for the period from discontinued operations	(6,068)	(414)	114	-	-
Net profit for the period	357	6,392	5,298	5,363	4,083
Attributable to owners of NAB	352	6,338	5,295	5,355	4,082
Attributable to non-controlling interests	5	54	3	8	1

Group performance indicators

	Year to				
	Sep 16	Sep 15	Sep 14	Sep 13	Sep 12
Key Indicators					
Statutory earnings per share (cents) - basic ⁽³⁾	8.8	252.7	219.0	225.9	175.3
Statutory earnings per share (cents) - diluted ⁽³⁾	15.5	245.4	215.4	224.0	174.4
Statutory return on equity ⁽¹⁾	0.5%	15.2%	12.1%	13.0%	10.3%
Profitability, performance and efficiency measures					
Dividend per share (cents)	198	198	198	190	180
Net interest margin ⁽¹⁾	1.88%	1.90%	1.91%	2.02%	2.10%
Capital					
Common Equity Tier 1 ratio	9.77%	10.24%	8.63%	8.43%	7.90%
Tier 1 ratio	12.19%	12.44%	10.81%	10.35%	9.79%
Total capital ratio	14.14%	14.15%	12.16%	11.80%	11.58%
Risk-weighted assets (\$bn) ⁽⁴⁾	388.4	399.8	367.7	362.1	346.3
Volumes (\$bn)					
Gross loans and acceptances ^{(1) (4) (5)}	545.8	521.9	537.6	522.1	500.9
Average interest earning assets ⁽¹⁾	689.5	658.1	703.0	661.6	630.0
Total average assets ⁽¹⁾	855.8	864.6	853.4	802.5	758.4
Total deposits ^{(1) (4)}	390.5	362.0	383.0	428.4	408.4
Asset quality					
90+ days past due and gross impaired assets to gross loans and acceptances ⁽¹⁾	0.85%	0.63%	1.19%	1.69%	1.78%
Collective provision to credit risk-weighted assets ⁽¹⁾	0.85%	0.99%	0.83%	0.94%	1.00%
Specific provision to gross impaired assets ^{(1) (6)}	38.3%	30.3%	35.5%	32.0%	30.3%
Other					
Funds under management and administration (\$bn)	197.4	168.4	158.1	145.1	124.7
Full Time Equivalent Employees (FTE) (spot) ⁽¹⁾	34,263	33,894	41,420	42,164	43,336
Full Time Equivalent Employees (FTE) (average) ⁽¹⁾	34,567	34,148	41,153	42,783	43,753

⁽¹⁾ Information is presented on a continuing operations basis including restatement for September 2015 for the demerger of CYBG PLC and the sale of 80% of NAB Wealth's life insurance business to Nippon Life. September 2014 was restated for the sale of GWB, but has not been restated for the demerger of CYBG PLC and the sale of 80% of the NAB Wealth's life insurance business to Nippon Life. No further comparative periods have been restated.

⁽²⁾ September 2016 and 2015 results reflect the adoption of AASB 9. Prior periods have not been restated.

⁽³⁾ Earnings per share is restated for 30 September 2014 by adjusting the weighted average number of ordinary shares in order to incorporate the bonus element in the 2015 rights issue, as per AASB 133.

⁽⁴⁾ Spot balance as at reporting date.

⁽⁵⁾ Including loans and advances at fair value.

⁽⁶⁾ Consists only of impaired assets where a specific provision has been raised and excludes \$785 million (2015: nil) of NZ Banking dairy exposures currently assessed as no loss based on collective provision and security held.

On a statutory basis, net profit attributable to owners of NAB decreased by \$5,986 million or 94.4% compared to 2015. Excluding foreign exchange rate movements, statutory net profit decreased by \$6,011 million or 94.8% mainly driven by the increased loss on discontinued operations during the 2016 year.

Net interest income increased by \$468 million or 3.8% compared to 2015. Excluding foreign exchange rate movements, net interest income increased by \$450 million or 3.6%. This includes a decrease of \$107 million which was offset by movements in economic hedges in other operating income. The underlying increase largely reflected increased volumes in housing and business lending and deposits,

combined with benefits received from the repricing of lending and deposits. These were partially offset by higher funding costs and competitive pressure on housing and business lending margins.

The Group's net interest margin fell two basis points from 1.90% to 1.88% in 2016 mainly due to higher funding and liquidity costs, reflecting higher wholesale funding costs, partially offset by benefits received from repricing.

Net investment and insurance income decreased by \$54 million or 7.7% due to the impact of the Successor Fund Merger on 1 July 2016, declining margins driven by MySuper plan transitions and a change in

Report of the Directors

Operating and financial review (continued)

business mix to lower margin wholesale and institutional products, consistent with broader industry experience.

Total other income decreased by \$729 million or 13.8% compared to 2015. Excluding foreign exchange rate movements, other income decreased by \$737 million or 14.0%. This result includes an increase of \$107 million due to movements in economic hedges, offset in net interest income. The underlying decrease was driven by lower trading performance and sales of risk management products to the Group's customers, movements in fair value and hedge ineffectiveness and one-offs in the September 2015 full year relating to the settlement of a long standing legal dispute, combined with the sale of loans in NAB UK CRE and assets in Australian Banking, that were not repeated in the September 2016 full year.

Total operating expenses increased by \$142 million or 1.7% compared to 2015. Excluding foreign exchange rate movements, operating expenses increased by \$126 million or 1.5%. This was mainly due to Enterprise Bargaining Agreement (EBA) wage increases, performance based incentive compensation normalisation, incremental support costs from deployed projects and higher depreciation and amortisation, partially offset by productivity savings across the Group's businesses.

The charge to provide for bad and doubtful debts increased by \$80 million or 10.9% compared to 2015. Excluding foreign exchange rate movements, the charge to provide for bad and doubtful debts increased by \$78 million or 10.6%. This was due to an increase in the overlay for the mining, mining related and agricultural sectors, combined with increased specific provisions for a small number of large single name exposures net of collective provision write backs. This was offset by an improvement in credit quality for the broader business lending portfolio.

Income tax expense decreased by \$156 million or 5.8% compared to 2015 largely due to a decrease in profit before tax.

Review of Group and Divisional Results

	Group	
	2016 ⁽¹⁾ \$m	2015 ⁽¹⁾ \$m
Australian Banking	5,472	5,101
NZ Banking	778	762
NAB Wealth	356	316
Corporate Functions and Other ⁽²⁾	1	218
Distributions	(124)	(175)
Cash earnings	6,483	6,222
Non-cash earnings items	(63)	578
Net profit/(loss) from discontinued operations	(6,068)	(462)
Net profit attributable to owners of NAB	352	6,338

⁽¹⁾ Information is presented on a continuing operations only basis including prior period restatement.

⁽²⁾ Corporate Functions and Other includes Group Funding, NAB UK CRE, other supporting units and the results of Specialised Group Assets (SGA) (closed as of 31 March 2015).

Group

Cash earnings increased by \$261 million or 4.2% compared to the September 2015 year. Excluding foreign exchange rate movements, cash earnings increased by \$258 million or 4.1%. This was driven by higher net operating income, partially offset by higher operating expenses and higher charges for bad and doubtful debts.

Australian Banking

Cash earnings increased by \$371 million or 7.3% against the September 2015 full year (excluding foreign exchange impacts cash earnings increased by \$370 million or 7.3%), driven by higher net

operating income and a lower charge for bad and doubtful debts, partially offset by higher operating expenses.

NZ Banking

Cash earnings increased by \$16 million or 2.1% compared to the September 2015 full year (excluding foreign exchange impacts cash earnings increased by \$12 million or 1.6%) driven by improved revenue and lower charges for bad and doubtful debts, partially offset by higher operating expenses.

NAB Wealth

Cash earnings increased by \$40 million or 12.7% compared to the September 2015 full year, reflecting growth in funds under management and administration (FUM/A) due to investment markets, efficiencies in operating expenses and a positive net funds flow.

Corporate Functions and Other

Cash earnings decreased by \$217 million or 99.5% against September 2015. Excluding the impact of foreign exchange, cash earnings decreased by \$219 million or 100.5%, driven by lower net operating income and higher charges for bad and doubtful debts, partially offset by a decrease in operating expenses and income tax expense.

Group Balance Sheet Review

	Group	
	2016 \$m	2015 \$m
Assets		
Cash and liquid assets	30,630	30,934
Due from other banks	45,236	50,595
Trading derivatives	43,131	78,384
Trading securities	45,971	42,937
Debt instruments at fair value through other comprehensive income	40,689	45,189
Investments relating to life insurance business ⁽¹⁾	86	89,350
Other financial assets at fair value	21,496	29,696
Loans and advances	510,045	532,784
Due from customers on acceptances	12,205	19,437
All other assets	28,133	35,746
Total assets	777,622	955,052
Liabilities		
Due to other banks	43,903	54,405
Trading derivatives	41,654	74,442
Other financial liabilities at fair value	33,224	30,046
Deposits and other borrowings	459,714	489,010
Life policy liabilities ⁽¹⁾	-	76,311
Bonds, notes and subordinated debt	127,942	130,518
Other debt issues	6,248	6,292
All other liabilities	13,622	38,515
Total liabilities	726,307	899,539
Total equity	51,315	55,513
Total liabilities and equity	777,622	955,052

⁽¹⁾ Refer to Note 41 - Discontinued operations for details.

Total assets decreased by \$177,430 million or 18.6% in 2016 when compared to 2015. Excluding foreign exchange rate movements, the CYBG demerger, deconsolidation of the superannuation funds from the Successor Fund Merger and the sale of 80% of NAB Wealth's life insurance business, total assets increased by \$12,541 million or 1.6% compared to 2015. The increase was mainly due to growth in liquid assets and marketable securities (comprising cash and liquid assets, due from other banks, trading securities and debt instruments at fair value through other comprehensive income) totalling \$23,609 million or 15.8%. In addition, there was an increase in loans and advances net of other financial assets at fair value and due from customers on acceptances totalling \$22,163 million or 4.3%. The increases were

Report of the Directors

Operating and financial review (continued)

partially offset by a decrease in trading derivatives of \$29,729 million or 37.8%.

Excluding foreign exchange rate movements, the increase in liquid assets and marketable securities reflected the Group's continuing desire to maintain balance sheet flexibility. Loans and advances grew due to continued momentum in housing lending in both Australia and New Zealand, combined with growth in non-housing lending reflecting the Group's strategy to focus on priority segments. The decline in trading derivatives was predominantly driven by the offsetting of financial assets and liabilities in respect of certain centrally cleared derivatives and their associated collateral amounts through the London Clearing House (LCH), resulting in lower regulatory capital required to be held by the Group due to lower risk weighted assets.

Total liabilities decreased by \$173,232 million or 19.3% in 2016 when compared to 2015. Excluding foreign exchange rate movements, the CYBG demerger, deconsolidation of the superannuation funds from the Successor Fund Merger and the sale of 80% of NAB Wealth's life insurance business, total liabilities increased by \$7,728 million or 1.1% compared to 2015. The increase was due to growth in deposits and other borrowings and due to other banks totalling \$27,098 million or 5.6% to support the increase in lending and liquidity portfolio. In addition, there was an increase in bonds, notes and subordinated debt and other debt issues totalling \$6,755 million or 5.2% to strengthen the balance sheet. The increases were partially offset by a decrease in trading derivative liabilities of \$27,409 million or 36.8% in line with the decrease in trading derivative assets.

Total equity decreased by \$4,198 million or 7.6% in 2016 when compared to 2015 reflecting the loss from discontinued operations and dividend payments during the year, partially offset by current year statutory earnings from continuing operations, combined with shares issued through the dividend reinvestment plan.

Capital Management and Funding Review

Balance Sheet Management Overview

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

- Maintaining a well-diversified wholesale funding portfolio with the ability to access a range of funding and capital options across various senior, subordinated and secured debt markets, as well as the domestic retail hybrid market.
- Remaining vigilant in its evaluation of the economic and regulatory environment, and continuing to ensure that the balance sheet remains strong to enable the Group to respond to changing market conditions and regulatory requirements.

Regulatory Reform

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

Basel III:

- The September 2016 Leverage Ratio will be disclosed within NAB's September 2016 Pillar 3 Report. The minimum Leverage Ratio is yet to be determined by APRA.
- In January 2016, the Basel Committee on Banking Supervision (BCBS) released a revised market risk framework, which is due to come into effect internationally on 1 January 2019, with regulatory reporting to commence by 31 December 2019. The Credit Valuation Adjustment (CVA) framework is currently in consultation.
- In September 2016, APRA released an additional discussion paper on the Net Stable Funding Ratio (NSFR). A ratio of at least 100% is proposed on both a Level 1 and 2 basis from 1 January 2018.

Federal Government's Financial System Inquiry (Inquiry):

- In July 2016, APRA released an update to its 2015 study comparing the capital position of the Australian major banks against their international peers.
- In line with previous statements by APRA, from 1 July 2016 risk weights applicable to mortgage loans increased.

Total loss absorbing capacity (TLAC):

- The Financial Stability Board (FSB) issued the TLAC standard in November 2015 for global systemically important banks (G-SIBs). In line with the recommendations in the Inquiry, APRA could implement a loss absorbing capacity framework in accordance with emerging international practice. At this stage, APRA have not yet issued guidance on how TLAC might be implemented.

Revised BCBS standards:

- Themes driving the BCBS's revision of standards include improving transparency, consistency and credibility of internal ratings based (IRB) models. Draft proposals include revisions to the standardised approaches for calculating regulatory capital for credit risk and operational risk, revisions to IRB approaches for credit risk and the introduction of a capital floor framework. Final Basel Standards are expected by calendar year end, with APRA's response expected sometime thereafter.
- In April 2016, the BCBS released the revised interest rate risk in the banking book (IRRBB) framework, which is due to come into effect internationally by 2018.

Other regulatory changes

- The Group is progressing with a transition to a revised Level 2 Group structure following clarification of the ADI Level 2 Group definition by APRA. In the interim period, CET1 capital reflects the transition arrangements granted by APRA on the removal of capital benefits arising from debt issued directly by National Wealth Management Holdings Limited (NWMH).
- APRA's consultation on the revisions to *Prudential Standard APS 120: Securitisation* brings together proposals to simplify securitisation for originating ADIs and the updated BCBS securitisation framework.
- APRA's standards on the non-capital components of the supervision of conglomerate groups (Level 3 framework) will be effective from 1 July 2017. Level 3 capital requirements are expected to be determined following the finalisation of other domestic and international policy initiatives, with APRA advising implementation will be no earlier than 2019. APRA's quantitative impact analysis suggests no additional capital will be required as a result of the implementation.

Capital Management

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

The Group's CET1 ratio operating target range remains between 8.75% and 9.25% and is regularly reviewed in the context of the external economic and regulatory outlook with the objective of maintaining balance sheet strength.

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Operating and financial review (continued)

Funding

The Group continues to pursue opportunities to enhance and diversify its funding sources.

Funding Indices

The Group employs a range of NAB Board approved metrics to set its risk appetite and measure balance sheet strength. A key structural measure used is the Stable Funding Index (SFI), which is made up of the Customer Funding Index (CFI) and Term Funding Index (TFI). The CFI represents the proportion of the Group's core assets that are funded by customer deposits. Similarly, the TFI represents the proportion of the Group's core assets that are funded by term wholesale funding with a remaining term to maturity of greater than one year.

Funding indices have decreased over the 2016 financial year due to the CYBG demerger. The impact of the demerger on the SFI was 1.1% and on the CFI was 2.1%. Excluding the impact of the CYBG demerger, the structural metrics remained stable over the 2016 financial year.

Customer Funding

The Group has continued to grow deposits in the 2016 financial year. Deposit raising is informed by current market conditions, funding requirements and the characteristics of funds raised.

The Monthly Banking Statistics published by APRA show that for the 12 months ended September 2016, NAB's growth (as a proportion of system growth) has been as follows:

- Australian domestic household deposits have grown by 5.9% (0.7x system growth).
- Business deposits (excluding deposits from financial corporations and households) have grown by 3.6% (0.6x system growth).
- Financial corporation deposits have contracted by 0.4% (-0.1x system growth).

Term Wholesale Funding

Global funding conditions remained broadly supportive of term issuance across major markets during the 2016 financial year, although there were periods of instability driven by global events. Conditions in credit markets improved significantly following the result of the United Kingdom referendum in June 2016. Despite being put on negative outlook, along with the other major Australian banks by S&P Global Ratings and Moody's Investors Service (refer to Credit Ratings section), NAB continued to see strong investor demand for its debt. Whilst current conditions are reasonably stable, markets remain sensitive to ongoing macroeconomic, geo-political and financial risks.

The Group maintains a well-diversified funding profile and has raised \$36.4 billion during the 2016 financial year (excluding NAB's Additional Tier 1 hybrid security).

During the 2016 financial year, NAB raised \$31.8 billion, including \$25.2 billion senior unsecured, \$5.0 billion of secured funding (comprising both covered bonds and Residential Mortgage Backed Securities (RMBS)) and \$1.6 billion of Tier 2 subordinated debt. Bank of New Zealand raised \$4.6 billion during the 2016 financial year.

The weighted average maturity of term wholesale funding raised by the Group over the 2016 financial year was approximately 5.4 years to the first call date. The weighted average remaining maturity of the Group's term wholesale funding portfolio is 3.3 years (4.2 years for TFI qualifying debt, which only includes debt with more than 12 months remaining term to maturity). The weighted average maturity of term

wholesale funding raised by NAB over the financial year was approximately 5.4 years to the first call date compared to approximately 5.0 years in the 2015 financial year.

Short-term Wholesale Funding

The Group consistently accessed international and domestic short-term wholesale funding markets during 2016.

In addition, repurchase agreements entered into are materially offset by reverse repurchase agreements with similar maturity profiles as part of normal trading activities.

Liquid Asset Portfolio

The Group maintains well diversified and high quality liquid asset portfolios to support regulatory and internal requirements in the various countries in which it operates. The market value of total liquid assets held as at 30 September 2016 was \$118 billion excluding contingent liquidity. This represents a reduction of \$2 billion from 31 March 2016 and \$5 billion reduction from 30 September 2015 (an increase of \$6 billion excluding CYBG).

Holdings of liquid assets include \$107 billion of regulatory liquid assets (consisting of both High Quality Liquid Assets (HQLA) and Committed Liquidity Facility eligible assets) as at 30 September 2016.

In addition to these liquid assets, the Group holds internal securitisation pools of RMBS as a source of contingent liquidity. These assets may also support the Committed Liquidity Facility. The Group held \$47 billion of Internal RMBS at 30 September 2016 (post applicable central bank deduction). This was an increase of \$2 billion from 31 March 2016 and an increase of \$3 billion from 30 September 2015.

Liquid assets that qualify for inclusion in the Group's LCR and Internal RMBS (net of applicable regulatory deductions) were on average \$147 billion for the quarter ending 30 September 2016 resulting in an average Group LCR of 121%.

Credit Ratings

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

The Group's current long-term debt ratings are: National Australia Bank Limited AA-/Aa2/AA- (S&P/Moody's/Fitch); BNZ AA-/Aa3/AA- (S&P/Moody's/Fitch); and National Wealth Management Holdings Limited A+ (S&P).

On 7 July 2016, S&P revised its rating outlook on the Commonwealth of Australia to negative from stable. At the same time, S&P affirmed their 'AAA' long term and 'A-1+' short term unsolicited sovereign ratings on Australia. As a result of the change in outlook to Australia's sovereign rating, S&P on the same day also revised the ratings outlook of Australian major banks and a range of their strategically important subsidiaries. This included an outlook revision of NAB and Bank of New Zealand (BNZ) to negative from stable. S&P affirmed NAB's 'AA-' long term and 'A-1+' short term ratings and BNZ's 'AA-' long term and 'A-1+' short term ratings.

On 18 August 2016, Moody's revised its Australian Macro Profile to "Very Strong Negative" from "Very Strong" reflecting Moody's view of a more challenging operating environment for banks in Australia. As a result of the revision in Moody's Australian Macro Profile, Moody's revised the ratings outlook of the major Australian banks, including NAB, to negative from stable. Moody's reaffirmed NAB's rating with NAB's senior unsecured debt unchanged at Aa2. On 19 August 2016,

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Moody's revised the outlook of the four major New Zealand Banks, including BNZ, in line with their parents and reaffirmed BNZ's Aa3 long-term senior unsecured debt rating. Moody's rating outlooks are assigned only to banks' long term deposit, issuer and senior unsecured debt ratings. NAB's short term, hybrid and subordinated debt ratings remain unchanged.

There was no change to the Fitch long term and short term rating for NAB and BNZ and the outlook remains unchanged at stable.

Dividends

The directors have declared a final dividend of 99 cents per fully paid ordinary share, 100% franked, payable on 13 December 2016. The proposed payment amounts to approximately \$2,630 million. The Group periodically adjusts the Dividend Reinvestment Plan (DRP) to reflect the capital position and outlook. There is no discount on the DRP and no participation limit.

Dividends paid since the end of the previous financial year:

- The final dividend for the year ended 30 September 2015 of 99 cents per fully paid ordinary share, 100% franked, paid on 15 December 2015. The payment amount was \$2,600 million.
- The interim dividend for the year ended 30 September 2016 of 99 cents per fully paid ordinary share, 100% franked, paid on 5 July 2016. The payment amount was \$2,618 million.

Information on the dividends paid and declared to date is contained in *Note 28 - Dividends and distributions* in the Financial Report. The franked portion of these dividends carries Australian franking credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%. Please note New Zealand imputation credits have also been attached to the dividend at a rate of NZ\$0.07 per share. The extent to which future dividends will be franked, for Australian taxation purposes, will depend on a number of factors, including the proportion of the Group's profits that will be subject to Australian income tax and any future changes to Australia's business tax system.

Review of, and Outlook for, Group Operating Environment

Global Business Environment

Global economic growth remains at the sub-trend pace it has experienced since 2012:

- The US economy remains solid and the Euro-zone recovery is continuing.
- Uncertainty surrounds the United Kingdom (UK) economy following the vote to leave the European Union (EU).
- China's economy remains on a slowing trend.
- Growth is modest across large parts of East Asia, weak in Latin America, but solid in India.

Sub-trend economic growth, as well as new supply coming on stream, led to large falls in overall commodity prices, although there has been a partial recovery since early 2016. The Thomson Reuters commodity price index in October was 14.5% above its January 2016 level, although it is still 38.4% lower than its 2011 peak.

A number of factors have weighed on global financial markets over the last year, including:

- The UK vote to leave the EU;
- Uncertainty over the direction and the effectiveness of monetary policy, including the timing of the federal funds rate increases in the US, the possibility of further easing by other central banks, and the efficacy of negative deposit rates.
- Other risks such as concerns over the health of the Italian banking system.

The outlook is for global growth to remain sub-trend.

Australian Economy

The Australian economy grew by 0.5% quarter-on-quarter in the June quarter 2016, taking growth over the year to 3.3% - its fastest pace since mid-2012. The annual growth rate reflects:

- An acceleration in government spending.
- Relatively subdued private consumption; growth of 2.9% over the year remains below the average over the last twenty years.
- Strong growth in residential dwelling investment.
- Weakness in business investment; which declined by 15% over the year, principally reflecting falls in non-dwelling construction in which the mining sector was the key driver.
- The strongest annual growth rate in exports since 2000.

Reflecting this composition of growth, domestic final demand remained subdued, growing by only 1.2% over the year to the June quarter. Moreover, nominal income growth was also modest by historical standards and there was a wide disparity in conditions across industries and geographies.

A factor weighing on national income in recent years has been falling commodity prices. In world price (SDR) terms, commodity prices in October 2016 were 45% lower than their mid-2011 level. However, the recent trend has been more positive with commodity prices in world price terms rising by 29% between their trough in January 2016 and October 2016.

GDP growth is expected to remain solid at 2.8% in calendar year 2016 and 2.7% in calendar year 2017, supported by increasing LNG exports, strong growth in net services exports and strong dwelling construction. Growth is expected to ease further to 2.6% in calendar year 2018 as LNG exports flatten off, the dwelling cycle turns down and the lagged benefit from the sharp currency depreciation since 2013 fades further.

Dwelling prices in Australian capital cities rose 7.5% in the year to October:

- Sydney and Melbourne continue to see strong gains.
- However, prices fell in Perth and Darwin over the same period.

Agricultural prices are mixed but have trended upwards overall in the past year. NAB's Rural Commodities Index was up 7.9% in AUD terms and 17.6% in USD terms over the year to September 2016. Winter crops are on track for a strong season, although late season rain in eastern Australia and frosts in Western Australia could lead to yield and quality downgrades.

Labour market conditions have been broadly stable:

- Employment grew by 1.4% over the year to September 2016, with growth strongest in the part time segment.
- The unemployment rate in September was 5.6%. While this was an improvement of 0.5 ppts compared to the same time last year, unemployment at this level indicates ongoing spare capacity in the labour market.
- Wages growth remains soft but is showing signs of stabilising.

Total system credit growth remains modest by historical standards:

- Annual credit growth started trending down in November 2015. In September 2016 total credit was 5.4% higher than it was a year earlier.
- Stronger owner occupied housing credit growth has been more than offset by a slowdown in housing investor credit growth and a downturn in other personal credit. Business credit growth has also moderated more recently.

With inflation subdued, and below the RBA's target band since late calendar year 2014, the RBA has reduced its policy rate twice during

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calendar year 2016. The cash rate now stands at a historically low 1.5% and is expected to fall further.

New Zealand Economy

The New Zealand (NZ) economy remains on a solid footing, with GDP (production basis) rising by 3.6% over the year to the June quarter 2016; its fastest pace since late calendar year 2014 and well above its historical average. For calendar years 2016 and 2017 growth of at least 3% is expected before moderating in 2018.

The strength in GDP over the year to the June quarter reflected:

- Strong consumption (4.0%) and export growth (5.5%).
- Business investment growth of 3.3%. Business investment intentions are also robust.
- A surge in residential building investment (14.5%). Moreover, the number of building consents continues to trend up despite some easing in the Canterbury region as the post-earthquake reconstruction effort fades.

Factors supporting economic growth include:

- Strong population growth due to record high net inward migration.
- Tourism, with short-term visitor arrivals for the year to September 2016 11.4% higher than in the year to September 2015.
- Low interest rates. The Reserve Bank of New Zealand (RBNZ) cut the official cash rate in August 2016 to a historically low 2.0%. The RBNZ's September meeting statement indicated that further policy easing will be required to meet its inflation target.

Low commodity prices have been a headwind but, after recording large falls from early calendar year 2014 to August 2015, they have been recovering.

- Between August 2015 and October 2016, commodity export prices, in world price terms, grew by 18%. In NZ dollar terms, since their recent low in April, prices have risen by 10% through to October 2016.
- Dairy export prices are still 43% below their 2013 peak (world price terms). However, they have risen strongly recently, increasing by 38% between May 2016 and October 2016. Over August and September 2016 Fonterra increased its forecast of the 2016/17 farmgate milk price by \$1 to \$5.25 per kg milk solids. This is now slightly above break-even for most dairy farmers and since Fonterra's September estimate dairy auction prices have risen further. Non-dairy commodity export prices generally remain mixed-to-strong.

Apart from commodity prices, constraints on growth have come from the NZ dollar – which appreciated 13.2% on a trade-weighted basis over the year to September 2016 – as well as lacklustre global growth and there are also emerging domestic capacity constraints.

House prices continue to grow, with strong house price inflation now broadening well beyond the confines of Auckland:

- The REINZ stratified house price index increased by 9.7% over the year to September 2016, with strong price growth in many regions. The Quotable Value NZ house price index grew by 12.7% over the year to October 2016.
- The RBNZ, in its August 2016 Monetary Policy Statement, considered house price growth to be "excessive".

The labour market is strong, although nominal wages growth is subdued.

- The unemployment rate fell 0.6 ppts over the year to September quarter 2016 to 4.9%.
- Average hourly earnings (ordinary time measure) grew by only 1.7% over the year to September quarter 2016, which is the weakest growth recorded since 2010.

Private sector resident credit growth was 7.8% year-on-year to September, around the level it has been since the start of calendar 2016.

- Strength is most evident in housing credit, although the latest loan-to-value restrictions are expected to slow growth.
- Annual agricultural credit growth has been slowing since late 2015.

Outlook

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

Disclosure on Risk Factors

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

Set out below are the principal risks and uncertainties associated with the Group. These risks and uncertainties are not listed in order of significance and it is not possible to determine the likelihood of any such risks occurring. In the event that one or more of these risks occur, the Group's business, operations, financial condition and future performance may be adversely impacted.

There may be other risks faced by the Group that are currently unknown or are deemed immaterial, but which may subsequently become known or become material. These may individually or in aggregate adversely impact the Group. Accordingly, no assurances or guarantees of future performance, profitability, distributions or returns of capital are given by the Group.

Risks specific to the banking and financial services industry

The nature and impact of these external risks are generally not predictable and are often beyond the Group's direct control.

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

The Group conducts business across a range of jurisdictions including Australia, New Zealand, the United Kingdom (UK), the United States (US) and Asia. The business activities of the Group are dependent on the nature and extent of banking and financial services and products required by its customers globally. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, market interest rates and macro-economic and financial market conditions and forecasts.

Domestic and international economic conditions and forecasts are influenced by a number of factors such as economic growth rates, cost and availability of capital, central bank intervention, inflation and deflation rates and market volatility and uncertainty. Economic conditions may also be impacted by major shock events such as natural disasters, war and terrorism, political and social unrest, and sovereign debt restructuring and defaults.

Volatility or uncertainty in credit, currency, commodity and equity markets, and adverse economic conditions have led to, and in the future may lead to:

- Increased cost of funding or lack of available funding.
- Deterioration in the value and liquidity of assets (including collateral).
- Inability to price certain assets.
- Increased likelihood of counterparty default and credit losses (including the purchase and sale of protection as part of hedging strategies).
- Higher provisions for bad and doubtful debts.
- Mark-to-market losses in equity and trading positions.

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- Lack of available or suitable derivative instruments for hedging purposes.
- Lower growth, business revenues and earnings. In particular, the Group's wealth business earnings are highly dependent on asset values, particularly the value of listed equities, and therefore a fall in the value of its assets under management may reduce its earnings contribution to the Group.
- Increased cost of insurance, lack of available or suitable insurance, or failure of the insurance underwriter.

The following are examples of certain macro-economic and financial market conditions that are currently relevant to the Group and may adversely impact its financial performance and position.

- Below trend increases in real gross domestic product (GDP) and sub-target inflation have resulted in lower income growth globally. In advanced economies, this reflects slower productivity growth, the long-lasting impact of the global financial crisis and a lack of demand growth in key economies such as Japan and the Eurozone. In Australia and New Zealand, income generation has been impacted by falling commodity prices, curbing the rate of growth in nominal GDP.
- Without sustained economic growth, high debt-to-income ratios present ongoing risks in the event of cyclical economic downturns. Particularly high debt burdens exist for government debt in advanced economies, non-financial institution corporate debt in emerging market economies (especially China and Brazil) and household sectors in Australia, New Zealand, Canada and parts of Western Europe. Higher government debt ratios in many advanced economies may also impact sovereign credit ratings. Ratings agency S&P Global Ratings (S&P) revised the outlook of Australia's sovereign rating to "negative" from "stable" and reaffirmed its AAA rating. As a result, S&P also revised the outlook for Australian major banks and their New Zealand subsidiaries to "negative" from "stable". Moody's Investors Service (Moody's) maintained the Australian sovereign outlook as "stable", but changed its Australian macro profile to "very strong negative" from "very strong" and as a result, revised the rating outlooks for a number of Australian banks and their New Zealand subsidiaries to "negative" from "stable". The outlook for New Zealand's sovereign credit rating remains stable.
- Weaknesses continue to exist in a number of European banks, and non-performing loans as a percentage of total assets remain high. The inter-connectedness of the global banking system means problems in the European banking system have the potential to create disruptions in global financial markets and to raise questions over the stability of particular banks around the world. In the past this has reduced market liquidity, which may negatively impact the Group's access to wholesale funding.
- Should interest rates in developed economies rise from historical lows, there is a risk that the valuation of a wide range of assets, from housing to government bonds, could fall sharply. Liquidity in those markets may also reduce unexpectedly and market volatility may increase. Previous periods of tightening monetary policy in the US have been associated with greater volatility in the volume and pricing of capital flows in emerging market economies. Several capital importing economies, including Australia and New Zealand, remain vulnerable to a sudden or marked change in US interest rates and expectations on the interest rate outlook.
- Continued economic growth in China is of particular importance to both Australia and New Zealand, with ongoing concerns that its rapid pace of growth could slow sharply. Chinese policy-makers have continued their reliance on an economic model based on high levels of investment and fast credit growth. Due to its export mix, Australia's economy is particularly exposed to a sudden downturn in Chinese investment or a substantial or sustained decline in the

Chinese economy. In addition, the increasing level of bad debts in China poses a major risk to its banking system with potential flow on impacts to the availability of credit and liquidity and to the broader Chinese economy.

- Sharp declines in commodity prices in both Australia and New Zealand have been driven by sub-trend global growth constraining demand, combined with increases in commodity supply. Certain regional areas have been adversely affected by declines in dairy prices in both countries, as well as by the decline in prices for minerals such as coal and iron ore, and oil and gas in Australia. Commodity price volatility remains substantial and the Group has sizeable exposures to commodity producing and trading businesses.
- Changes in the political environment raise the risk that growth promoting reforms with upfront costs, but medium-term payoffs, may become more difficult to implement. Sudden changes in long-established economic policies can occur in less stable and more unpredictable geopolitical environments, potentially winding back the globalisation and market liberalisation trends that have underpinned global growth in recent decades. The UK vote to leave the European Union (EU) has created significant political, social and macro-economic uncertainty. Post-exit arrangements between the UK and the EU on issues such as the UK's access to European markets, its regulatory environment and the free movement of capital and labour are still unknown. Further potential changes arising from various political events, including the US federal elections in November 2016 and elections in key Eurozone countries in 2017, could represent an added risk to the global business environment and increase market volatility.

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

The Group is highly regulated in Australia and in the other jurisdictions in which it operates, trades or raises funds, and is subject to supervision by a number of regulatory authorities and industry codes of practice.

Regulations vary across jurisdictions, and are designed to protect the interests of depositors, policy holders, security holders, and the banking and financial services system as a whole. Changes to laws and regulations or changes to regulatory policy or interpretation can be unpredictable, are beyond the Group's control, and may not be harmonised across the jurisdictions in which the Group operates. Regulatory change may result in significant capital and compliance costs, changes to corporate structure and increasing demands on management, employees and information technology systems.

Examples of current and potential regulatory changes impacting the Group are set out below.

Implementation of the Basel Committee on Banking Supervision's (BCBS) reforms will continue over the coming years. The Australian Prudential Regulation Authority (APRA) has introduced prudential standards for BCBS Basel III requirements in Australia. These reforms have increased the quality and ratio of capital to risk weighted assets that the Group is required to maintain and the quality and proportion of assets that the Group is required to hold as high-quality liquid assets (HQLA). Other BCBS key changes impacting the Group include:

- The final APRA standard on the net stable funding ratio (NSFR) is proposed to be implemented by January 2018. Depending on APRA's interpretation, compliance with NSFR may impact the funding profiles and associated costs of participants in the Australian banking industry, and New Zealand banks owned by Australian parent banks.

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- Revisions to the securitisation framework are expected to be implemented in January 2018. This may impact the amount of regulatory capital held industry-wide for securitisation exposures.
- In January 2016, the BCBS announced its revised market risk framework, which is due to come into effect from 2019 globally. This may impact trading book capital requirements.
- APRA has also signalled its intention to implement a minimum leverage ratio requirement for Authorised Deposit-taking Institutions (ADIs); this is not expected prior to 1 January 2018.

In New Zealand, the Reserve Bank of New Zealand has implemented the Basel III Capital Adequacy Framework, as modified to reflect New Zealand conditions.

Other regulators have also implemented or are in the process of implementing Basel III and equivalent reforms.

Regulatory changes continue to be made by the BCBS as it focuses on improved consistency and comparability in banks' regulatory capital ratios. Themes driving the revision of standards include transparency, consistency and credibility. Draft proposals include revisions to the internal ratings based and standardised approaches for calculating regulatory capital and the introduction of a capital floor framework, with consultation on sovereign risk expected. In April 2016, the BCBS released the revised interest rate risk in the banking book framework. The BCBS is also expected to implement revisions to the operational risk capital framework. The full impact of the changes will not be known until the BCBS requirements are finalised and implemented by APRA or by other regulators. This may intersect with measures adopted as a result of the Australian Financial System Inquiry (FSI).

The FSI was charged with examining how Australia's financial system could be positioned to best meet the country's evolving needs and support its economic growth. The FSI proposed measures to improve the resilience, efficiency and fairness of the banking system, with respect to matters including superannuation and retirement, regulatory processes, innovation, payments and data, and measures to improve outcomes for consumers. In 2015, the Australian government confirmed its support for 43 of the 44 recommendations for the Australian financial system and gave APRA responsibility for implementing recommendations impacting the financial sector regulatory framework. From July 2016, APRA raised the risk weight for Australian residential mortgages from approximately 16% to an average of 25% for ADIs accredited to use internal models. Implementation of further recommendations may result in impacts to regulation and legislation, risk weighted assets or capital ratios.

The Financial Stability Board issued the total loss-absorbing capacity standard in November 2015 for global systemically important banks (G-SIBs). While not a G-SIB, NAB could be required to meet higher capital levels as a domestic systemically important bank. This is in line with the FSI recommendation to implement a loss absorbing capacity framework, and also in accordance with emerging international practice. This may have implications for the nature and cost of the Group's capital.

The Group is progressing with a transition to a revised Level 2 Group structure following clarification of the ADI Level 2 Group definition by APRA. In the interim period, CET1 capital reflects the transitional arrangements granted by APRA on the removal of capital benefits arising from debt issued directly by National Wealth Management Holdings.

APRA has released final prudential standards associated with the governance and risk management components of the framework for the supervision of conglomerate groups, including the Group. These non-capital components become effective on 1 July 2017. APRA has

deferred finalising the capital components of the framework, with implementation of any new requirements not expected prior to 2019.

The US Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) instituted major changes to US banking and financial institution regulatory regimes. These changes include additional supervisory requirements and prudential standards for certain foreign banking organisations, such as NAB, and its affiliates. The Dodd-Frank Act also contains the Volcker Rule, which prohibits certain proprietary trading and the sponsorship of, and investment in, hedge, private equity or other similar funds by certain foreign banking organisations, including NAB.

Over The Counter (OTC) derivative market reforms are being implemented globally. In Australia, the Australian Securities and Investments Commission (ASIC) now mandates central clearing of certain interest rate derivatives entered into by Australian ADIs. In broad alignment with international standards, APRA has proposed margining and risk mitigation standards for non-centrally cleared derivatives. OTC reforms are being implemented by regulators including the Financial Conduct Authority in the UK, the European Securities and Markets Authority in Europe and the Securities Exchange Commission through the Dodd-Frank Act and related regulations in the US. Where there is variation in the scope and implementation timeframes for OTC reforms across jurisdictions, there may be added costs and complexity in achieving regulatory compliance for the Group.

In addition to the aforementioned changes, other areas of ongoing regulatory change and review include additional prudential and conduct reforms, supervisory actions to reinforce sound residential mortgage lending practices, including restrictions on the growth in investor lending, changes to accounting and reporting requirements, tax legislation, bank specific tax levies, payments and privacy laws. There is increasing supervision and regulation with respect to anti-bribery and corruption, anti-money laundering, counter-terrorism financing and trade sanctions. There has also been increased regulator expectation and focus in relation to a number of other areas including financial advice, data quality and controls, governance and culture, conduct, conflicts of interest and management of life insurance claims. In addition, there have been proposals within Parliament for a Royal Commission to investigate Australian banks.

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

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

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

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the Group's financial performance and competitive position may be adversely affected.

Risks specific to the Group

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

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

Credit risk is the potential that a counterparty or customer will fail to meet its obligations to the Group in accordance with agreed terms. Lending activities account for most of the Group's credit risk, however other sources of credit risk also exist including the banking book, the trading book, and other financial instruments and loans, as well as the extension of commitments and guarantees and the settlement of transactions.

Major sub-segments within the Group's lending portfolio include residential housing loans, a material component of our total gross loans and acceptances, and commercial real estate loans, the majority of these domiciled across Australia and New Zealand.

Adverse business or economic conditions, including deterioration in property valuations or prices of both residential and commercial property, employment markets, the political environment or high levels of household debt in Australia and New Zealand may result in failure by counterparties and customers to meet their obligations in accordance with agreed terms. The Group may be exposed to the increased risk of counterparty or customer default should interest rates rise above the record or near record lows of recent years. In particular, the Group's portfolio of interest-only loans across retail and non-retail segments, in addition to the residential investor mortgage portfolio, may be susceptible to losses in the event of a rise in interest rates or a decline in property prices. The Group may also be exposed to counterparty default in the event of a deterioration in apartment markets, through both retail lending and non-retail lending to property developers.

The Group's large business lending market share in Australia and New Zealand exposes it to potential losses should adverse conditions be experienced across this sector. Similarly, the Group has a large market share in the Australian and New Zealand agricultural sectors, particularly the dairy sector in New Zealand. As a consequence, volatility in commodity prices, foreign exchange rate movements, climatic events (including drought), disease, export restrictions, quarantine restrictions, introduction of pathogens and pests, and other risks that may impact this sector, may have an adverse impact on the Group's financial performance and position. More specifically, the New Zealand dairy market has come under pressure due to a lower milk solid payout rate. The prevailing low payout environment has the potential to drive an increase in bad and doubtful debts. The Australian dairy industry is also facing lower milk prices and reduced payments to producers. The mining and oil and gas industries in Australia, as well as a number of sectors that service them, have been impacted by a slowdown in investment and a fall in commodity prices. Ongoing pressure in these sectors may also result in an increase in bad and doubtful debts.

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

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

The Group may suffer losses due to its exposure to operational risks.

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

Operational risks are a core component of doing business arising from the day-to-day operational activities of the Group as well as strategic projects and business change initiatives. Given that operational risks cannot be fully mitigated, the Group determines an appropriate balance between accepting potential losses and incurring costs of mitigation.

An operational risk event may give rise to substantial losses, including financial loss, fines, penalties, personal injuries, reputational damage, loss of market share, theft of property, customer redress and litigation. Losses from operational risk events may adversely impact the Group's reputation and financial performance and position.

Examples of operational risk events include:

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

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

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

The Group may be exposed to risk from non-compliance with laws or standards and other forms of misconduct, which may adversely impact its reputation and financial performance and position.

The Group is exposed to risk arising from failure or inability to comply with applicable laws, regulations, licence conditions, regulatory standards, industry codes of conduct and Group policies and procedures. This may include detrimental practices, such as selling or unduly influencing customers to purchase inappropriate products and services, conducting inappropriate market practices or being a party to fraudulent transactions, non-adherence to fiduciary requirements or provision of financial advice which is inappropriate or not in the best interests of customers. If the Group's compliance controls were to fail

Report of the Directors

Operating and financial review (continued)

significantly, be set inappropriately, or not meet legal or regulatory expectations, thereby allowing such risks to eventuate, then the Group may be exposed to fines, public censure, litigation, settlements, restitution to customers, regulators or other stakeholders, unenforceability of contracts such as loans, guarantees and other security documents, or enforced suspension of operations or loss of licence to operate all or part of the Group's businesses. This may adversely impact the Group's reputation and financial performance and position.

The Group has ongoing discussions with key regulators on industry-wide issues and matters specific to the Group. The global banking and financial services industry is increasingly subject to information requests, scrutiny and investigations by its conduct based regulators, and at times government, which have led to a number of international firms facing high profile enforcement actions, including substantial fines, for breaches of laws or regulations. Regulators globally are continuing their investigation into manipulation of financial benchmarks and markets. In Australia, such investigations include an industry-wide review by ASIC into participants in the bank bill swap reference rate (BBSW) market. Following this review, ASIC commenced Federal Court proceedings against NAB and two other market participants. NAB fully co-operated with ASIC's review which preceded the commencement of proceedings. NAB together with its New Zealand based subsidiary (Bank of New Zealand) and 16 other banks, has been named as a defendant in a class action complaint filed in the United States District Court for the Southern District of New York regarding alleged conduct concerning BBSW. The action references the proceedings brought by ASIC. Industry-wide investigations by ASIC and the Australian Competition and Consumer Commission (ACCC) into potential wrongdoing in relation to Spot FX trading are continuing. NAB is co-operating with ASIC and the ACCC and is responding to their inquiries. The potential outcomes of these court actions and investigations are uncertain at this time. It is possible that other class actions could arise in connection with the BBSW and FX industry-wide issues.

Since September 2014, the Australian Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including potential unethical or misleading financial advice and compensation processes for consumers impacted by that advice. This inquiry has now lapsed with the dissolution of Parliament prior to the general election in July 2016.

In October 2015, the Group began contacting certain groups of customers where there was a concern that they may have received non-compliant advice since 2009. The outcomes and total costs associated with this work are uncertain. The Group is aware that two plaintiff law firms have advertised that they are investigating claims on behalf of the Group's customers who have suffered losses as a result of financial advice received from the Group's advisers. No formal action has yet been taken against the Group in this regard.

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

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

Most of the day-to-day operations of the Group are computer-based, and therefore the reliability and security of the Group's information technology systems and infrastructure are essential to its business. Technology risk may arise from events including a failure of these systems to operate effectively, an inability to restore or recover such systems in acceptable timeframes, a breach of data security, or other form of cyber-attack or physical attack. These events may be wholly or partially beyond the control of the Group. Such events may result in disruption to operations, reputation damage, litigation, loss or theft of customer data, or regulatory investigations and penalties. This may adversely impact the Group's reputation and financial performance and position.

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

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

As with other business activities, the Group uses select external providers (both in Australia and overseas) to continue to develop and provide its technology solutions. There is increasing regulatory and public scrutiny of outsourced and off-shored activities and their associated risks, such as the appropriate management and control of confidential data. The failure of any external providers to perform their obligations to the Group or the failure of the Group to appropriately manage those providers, may adversely impact the Group's reputation and financial performance and position.

Transformation and change programs across the Group may not deliver some or all of their anticipated benefits.

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

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

The preparation of the Group's financial statements requires management to make estimates and assumptions and to exercise judgement in applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and

Report of the Directors

Operating and financial review (continued)

expenses. Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the estimates used in the calculation of provisions (including those pertaining to conduct-related matters), the valuation of goodwill and intangible assets, and the fair value of financial instruments.

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

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

Entities within the Group may be involved from time to time in legal proceedings arising from the conduct of their business. The aggregate potential liability and costs in respect thereof cannot be accurately assessed. Any material legal proceedings may adversely impact the Group's reputation and financial performance and position.

Refer to 'Notes to the Consolidated Financial Statements', *Note 31 - Contingent liabilities and credit commitments* on page 107 in the *Financial Report* for details in relation to the Group's material legal proceedings and contingent liabilities.

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

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

Prudential capital requirements (and proposed changes to these requirements), including regulatory changes arising from the BCBS capital adequacy reforms or in response to the recommendations of the FSI, may limit the Group's ability to manage capital across the entities within the Group, pay dividends or distributions on shares and hybrid instruments, or may require the Group to raise or use more capital of higher quality, or to restrict balance sheet growth. Additionally, if the information or the assumptions upon which assessments of capital requirements are made prove to be inaccurate, this may adversely impact the Group's operations and financial performance and position.

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

Funding risk is the risk that the Group is unable to raise short- and long-term funding to support its ongoing operations, strategic plans and objectives. The Group accesses domestic and global capital markets to help fund its businesses. Any dislocation in these funding markets, or a reduction in investor appetite for holding the Group's securities, may adversely affect the Group's ability to access funds or require the Group to access funds at a higher cost or on unfavourable terms.

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of borrowings and loan capital as they mature, the payment of interest on borrowings and the payment of operating expenses and taxes. Any significant deterioration in the Group's liquidity position may lead to an

increase in the Group's funding costs, constrain the volume of new lending, or result in the Group drawing upon its committed liquidity facility with the Reserve Bank of Australia. This may adversely impact the Group's profitability and financial performance and position.

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

Credit ratings are an opinion on the general creditworthiness of a borrower and may be an important reference for market participants in evaluating the Group and its products, services and securities.

Credit rating agencies conduct ongoing review activities which can result in changes to credit rating settings and outlooks for the Group, or for sovereign governments in countries in which the Group conducts business. Review activity is based on a number of factors, including the Group's financial strength and outlook, the strength of the Group's operations and processes, the assumed level of government support for the Group in a crisis and the strength of that government, and the condition of the financial services industry and of the markets generally. Credit ratings may also be affected by changes in the rating methodologies used by the agencies.

On 7 July 2016, S&P revised the outlook for the Commonwealth of Australia to "negative" from "stable". On 18 August 2016, Moody's revised its Australian macro profile to "very strong negative" from "very strong". As a result of these changes, both S&P and Moody's have revised the outlook for a number of Australian banks and their New Zealand subsidiaries, including NAB and Bank of New Zealand, to "negative" from "stable".

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

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

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

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

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

Report of the Directors

Operating and financial review (continued)

The Group's ownership structure includes investment in overseas subsidiaries and associates and exposures from known foreign currency transactions (such as repatriation of capital and dividends from off-shore subsidiaries). The Group also conducts business outside of Australia and transacts with customers, banks and other counterparties in different currencies, most frequently Australian, New Zealand and US Dollars, British Pounds and Euros. The Group's businesses may therefore be affected by a change in currency exchange rates, a full or partial break-up of the Eurozone, or a change in the reserve status of any of these currencies. Any unfavourable movement in foreign exchange rates may adversely impact the Group's financial performance and position.

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

The Group may suffer significant losses from its trading activities.

Traded market risk is the risk of losses arising from trading activities, including proprietary trading, undertaken by the Group. Losses can arise from a change in the value of positions in financial instruments or their hedges due to adverse movements in market prices. Any significant losses from such trading activities may adversely impact the Group's financial performance and position.

Damage to the Group's reputation may adversely impact its financial performance and position.

The Group's reputation may be damaged by the actions, behaviour or performance of the Group, its employees, affiliates, suppliers, intermediaries, counterparties or customers, or the financial services industry generally. Heightened media and political scrutiny of the Australian banking industry have the potential to damage the long term reputation of the banking industry, or lead to further government intervention or inquiries into the sector.

A risk event, such as a compliance breach, fraud or an operational or technology failure, may expose the Group to direct losses as a result of litigation, fines and penalties, remediation costs or loss of key personnel as well as potential impacts to NAB's share price. In addition, the event may adversely affect the perceptions of the Group held by the public, shareholders, investors, customers, regulators or ratings agencies. The risk of reputational damage may be heightened by the continuing growth and use of social media.

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

Failure to sell down underwriting risk may result in losses to the Group.

As financial intermediaries, members of the Group underwrite or guarantee many different types of transactions, risks and outcomes, including the placement of listed and unlisted debt, equity-linked and equity securities. The underwriting obligation or guarantee may be over the pricing and placement of these securities, and the Group may

therefore suffer losses if it fails to sell down some or all of this risk to other market participants.

A failure of the Group's risk management framework may adversely impact its reputation and financial performance and position.

The Group operates within a risk management framework that is based on a Three Lines of Defence model, and which is the totality of systems, structures, policies, processes and people that manage all material internal and external sources of identified material risk.

As with any risk management strategy, there is no guarantee that this framework is sufficient to mitigate known risks or to identify or address changing or new and emerging risks. As such, any ineffectiveness or inadequacy in the risk management framework and its implementation may adversely impact the Group's reputation and financial performance and position.

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

There is a risk that the assumptions underlying the Group's strategic decisions are (or prove to be) incorrect or that the conditions underpinning those strategic decisions may change. The Group may not have the resources or flexibility to adapt quickly to such change. In addition, any one or more of the Group's strategic initiatives may prove to be too difficult or costly to execute effectively.

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

Opportunities that are pursued may change the Group's risk profile and capital structure.

Such opportunities that are pursued inherently come with transaction risks, including over-valuation of an acquisition (or under-valuation of a divestment), and exposure to reputational and financial risks. Other risks may arise through the integration or separation of a business, including failure to realise expected synergies, disruption to operations, diversion of management resources or higher than expected costs. In addition, the Group may have ongoing exposures to divested businesses, including through the provision of continued services and infrastructure (such as the transitional services being provided to the CYBG Group) or the retention of liabilities, including through warranties and indemnities in sale agreements such as the Conduct Indemnity Deed with CYBG. Refer to 'Notes to the Consolidated Financial Statements', (v) UK conduct issues and the Conduct Indemnity Deed', *Note 31 - Contingent liabilities and credit commitments* on page 107 in the *Financial Report*.

These factors may adversely impact the Group's reputation and financial performance and position.

Risks specific to the NAB Wealth (MLC Limited) life insurance transaction.

In addition to the risks described above, the following are specific risks associated with the MLC life insurance transaction.

On 3 October 2016, NAB completed the sale of 80% of MLC Limited (the entity which carries on the life insurance business) to Nippon Life.

NAB has agreed to take certain actions to establish MLC Limited as a standalone entity. The implementation programme forms part of the recognised \$1.3 billion loss on sale. As the work has yet to be completed, there is a risk that implementation costs ultimately prove higher than anticipated. In addition, NAB has given certain covenants, warranties and indemnities in favour of Nippon Life in connection with

Report of the Directors

Operating and financial review (continued)

the transaction. A breach of these covenants or warranties, or the triggering of an indemnity may result in NAB being liable to Nippon Life.

As part of the transaction, NAB has entered into certain long term arrangements. These include: (1) a 20-year distribution agreement under which NAB will distribute MLC life insurance products through its various channels, (2) a shareholders deed with respect to NAB's retained 20% share in MLC Limited (with that shareholders deed continuing while NAB holds shares in MLC Limited), and (3) a 10-year brand licence agreement for MLC Limited to continue to have use of the MLC brand. The duration and nature of these arrangements give rise to certain risks. For example, changes in regulation or the commercial environment in the future may impact the attractiveness or commercial viability of these long-term arrangements, and exclusivity and non-compete arrangements may limit future opportunities for NAB.

In addition, Nippon Life owns the majority of the shares in MLC Limited and is entitled to appoint a majority of its directors. NAB has retained 20% ownership of MLC Limited but is not in a position to direct the strategy or operations of MLC Limited, or manage the costs and risks involved.

Report of the Directors

Directors' information

Directors

Details of directors of NAB in office at the date of this report (or holding office during the year), and each director's qualifications, experience and special responsibilities are below:

Dr Kenneth R Henry AC, BComm (Hons), PhD, DB h.c, FASSA, FAIIA

Age: 58

Term of office: Director since November 2011. Chairman since December 2015.

Independent: Yes

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

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Chairman, Sir Roland Wilson Foundation, ANU (since February 2013, Member since May 2001).
- Director, ASX Limited and some of its subsidiaries (since February 2013).
- Director, Cape York Partnership (since May 2016).
- Governor, Committee of Economic Development of Australia (CEDA) (since November 2011).
- Member, John Grill Centre for Project Leadership's Advisory Board, University of Sydney (since November 2015).
- Member, Australia-China Senior Business Leaders Forum (since December 2015).
- Former Chairman, Advisory Council of the SMART Infrastructure Facility, (University of Wollongong) (from 2011 to August 2015).
- Former Chairman, The Institute of Public Policy at the Australian National University (ANU) (July 2012 to November 2014).
- Former Member, Board of Reconciliation Australia (from July 2012 to September 2016).

Board Committee membership:

- Chairman of the Board Nomination Committee.

Mr Andrew G Thorburn BCom, MBA

Age: 51

Term of office: Director since August 2014.

Independent: No

Skills & Experience: Over 30 years of experience in banking and finance. Andrew joined NAB in January 2005 as Head of Retail Banking, was appointed Managing Director and CEO of the Bank of New Zealand (BNZ) in 2008 and joined the NAB Group Executive Committee in January 2009. In August 2014, Andrew was appointed to his current role.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Chairman, Australian Bankers' Association Inc (Chairman since December 2015 and Director since September 2014).
- Director, The Financial Markets Foundation for Children (since September 2014).

Board Committee membership:

- Member of the Board Information Technology Committee (until September 2016).

Mr David H Armstrong BBus, FCA, MAICD

Age: 58

Term of office: Director since August 2014.

Independent: Yes

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

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Director, The George Institute for Global Health (since October 2014).
- Trustee, Lizard Island Reef Research Foundation (since April 2014).
- Trustee, Australian Museum (since January 2014).
- Director, The Opera Australia Capital Fund Limited (since May 2013).

Board Committee membership:

- Chairman of the Board Risk Committee.
- Member of the Board Audit Committee.
- Member of the Board Nomination Committee.
- Member of the Board Information Technology Committee (until September 2016).

Mr Philip W Chronican BCom (Hons), MBA (Dist), GAICD, SF Fin

Age: 60

Term of office: Director since May 2016

Independent: Yes

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

Report of the Directors

Directors' information (continued)

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Chairman, NSW Treasury Corporation (known as 'TCorp') (Chairman since June 2016, Director since November 2009).
- Director, Banking + Finance Oath (since February 2013).
- Director, Juvenile Diabetes Research Foundation (since June 2015).

Board Committee membership:

- Member of the Board Risk Committee.
- Member of the Board Remuneration Committee.
- Member of the Board Nomination Committee.

Mr Daniel T Gilbert AM, LLB

Age: 65

Term of office: Director since September 2004

Independent: Yes

Skills & Experience: Over 40 years of experience in commercial law. Daniel is Managing Partner of corporate law firm Gilbert + Tobin, which he co-founded in 1988. Daniel is also Co-Chair of the NAB Indigenous Advisory Group.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Chairman, Western Sydney University Foundation (since January 2012).
- Chairman, Cape York Partnership (since January 2015).
- Chairman, Eucharistic Community Limited (since June 2013).
- Honorary Ambassador, Menzies School of Health Research (since June 2015).
- Former Chairman, National Museum of Australia (from March 2009 to March 2015).

Board Committee membership:

- Chairman of the Board Remuneration Committee.
- Chairman of the Board Information Technology Committee (until September 2016).
- Member of the Board Nomination Committee.

Mr Peeyush K Gupta BA, MBA, AMP (Harvard), FAICD

Age: 57

Term of office: Director since November 2014

Independent: Yes

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

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Director, Insurance & Care NSW (iCare) (since October 2015).
- Chairman, Charter Hall Direct Property Management Limited (since November 2011).
- Director, Charter Hall Wale Ltd (since May 2016).
- Director, Quintessence Labs Pty Ltd (since June 2008).
- Director, SBS Special Broadcasting Service (since October 2014).
- Trustee, Western Sydney University (since June 2016).

- Former Director, Safety, Return to Work and Support Board (NSW Workcover and Motor Transport Accidents Authority) (from August 2012 to August 2015).
- Former Chairman, State Super Financial Services Australia Limited (from June 2010 to June 2016).
- Former Director, Securities Industry Research Centre of Asia Pacific (SIRCA) (from October 2009 to 2015).
- Former Member, University Western Sydney Foundation (from June 2013 to 2016).

Board Committee membership:

- Member of the Board Risk Committee.
- Member of the Board Remuneration Committee.
- Member of the Board Nomination Committee.

Ms Anne J Loveridge BA (Hons), FCA, GAICD

Age: 55

Term of office: Director since December 2015

Independent: Yes

Skills & Experience: Over 30 years of experience in the Financial Services practice at PwC, with a range of clients in banking, property, private equity and wealth management sectors. Anne has extensive knowledge of financial and regulatory reporting, risk management, controls and compliance frameworks.

While at PwC, Anne held various senior leadership positions in the firm, including Deputy Chairman of PwC Australia, managing financial results, risk & quality matters, people & partner development, remuneration and diversity initiatives.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Director, The Bell Shakespeare Company Limited (since September 2014).
- Director, Platinum Asset Management Limited (since September 2016).
- Member, IFAC (International Federation of Accountants) Board Nomination Committee (since January 2014).

Board Committee membership:

- Chair of the Board Audit Committee.
- Member of the Board Nomination Committee.

Ms Geraldine C McBride BSc

Age: 55

Term of office: Director since March 2014.

Independent: Yes

Skills & Experience: Over 27 years of experience in the technology industry and international business. Former President of global software company SAP for North America. Founder and CEO of MyWave, a software and services company developing consumer and enterprise relationship solutions using intelligent assistant and personal cloud technologies.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Director, Sky Television Limited (since August 2013).
- Director, Fisher and Paykel Healthcare (since July 2013).
- Director, My Wave Limited (since August 2013).

Board Committee membership:

- Member of the Board Nomination Committee.
- Member of the Board Information Technology Committee (until September 2016).

Report of the Directors

Directors' information (continued)

Mr Doug A McKay ONZM, BA, AMP (Harvard)

Age: 61

Term of office: Director since February 2016.

Independent: Yes

Skills & Experience: Over 30 years of senior commercial, operating and marketing experience with a deep understanding of the New Zealand and Australian markets, having held senior positions within major trans-Tasman companies and organisations, including Director of IAG (NZ) Insurance and Ryman Healthcare (current), and Chartered Accountants Australia & New Zealand for the past 7 years. Doug's previous executive leadership roles include Auckland Council, Lion Nathan, Carter Holt Harvey, Goodman Fielder, Sealord, and Independent Liquor. He is a member of the NZ Institute of Directors. He is Chairman of BNZ (a subsidiary of NAB).

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Chairman, Eden Park Trust Board (since July 2014).
- Director, Genesis Energy Limited (since June 2014).
- Director, IAG (NZ) Holdings Limited and its subsidiaries (since February 2014).
- Director, Ryman Healthcare Limited (since September 2014).
- Former Director, New Zealand Institute of Chartered Accountants Regulatory Board (from July 2009 to June 2016).
- Former Director, Chartered Accountants Australia & New Zealand (from December 2014 to June 2016).

Board Committee membership:

- Member of the Board Audit Committee.
- Member of the Board Nomination Committee.

Ms Jillian S Segal AM, BA, LLB, LLM (Harvard), FAICD

Age: 61

Term of office: Director since September 2004

Independent: Yes

Skills & Experience: Over 20 years as a lawyer and regulator. From 1997 to 2002, she was a commissioner of ASIC and Deputy Chairman from 2000 to 2002. Jillian was Chairman of the Banking & Financial Services Ombudsman Board from 2002 to 2004. Prior to that she was an environment and corporate partner and consultant at Allen Allen & Hemsley and worked for Davis Polk & Wardwell in New York. She is a Member of the NAB Advisory Council on Corporate Responsibility.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Chair, General Sir John Monash Foundation (since May 2010 and Director since February 2008).
- Chair, Australia-Israel Chamber of Commerce (NSW) (since March 2015 and Director since February 2013).
- Director, Garvan Institute of Medical Research (since June 2009).
- Deputy Chancellor, University of New South Wales Australia Council (since January 2010 and Member since February 2006).
- Member, Sydney Opera House Trust (since January 2014).
- Member, Australian War Memorial Council (since June 2014).
- Former Director, ASX Limited (from July 2003 to September 2015).
- Former Director, ASX Compliance Pty Limited (from July 2006 to September 2015).

Board Committee membership:

- Member of the Board Risk Committee.
- Member of the Board Remuneration Committee.
- Member of the Board Nomination Committee.

- Member of the Board Information Technology Committee (until September 2016).

Mr Anthony K T Yuen B.Soc.ScS

Age: 66

Term of office: Director since March 2010

Independent: Yes

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

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Member, Supervisory Committee, ABF Hong Kong Bond Index Fund (since 2006).
- Member, Hong Kong Red Cross International and Relief Service Management Committee (since April 2015).

Board Committee membership

- Member of the Board Risk Committee.
- Member of the Board Audit Committee.
- Member of the Board Nomination Committee.

Board changes

Mr Chaney retired from the Board on 17 December 2015

Mr Michael A Chaney AO, BSc, MBA, Hon. LLD *W.Aust.*, FAICD, FATSE

Age: 66

Term of office: Chairman from September 2005 to December 2015 and Director since December 2004

Independent: Yes

Skills & Experience: Over 30 years of experience in a range of industries in executive, financial management and governance roles, including Managing Director and Chief Executive Officer of Wesfarmers Limited from 1992 until July 2005. Three years with investment bank Australian Industry Development Corporation, from 1980 to 1983. Eight years in petroleum exploration in Australia, Indonesia and the United States from 1972 to 1980.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Chairman, Woodside Petroleum Ltd (since August 2007, Director since November 2005).
- Chairman, Wesfarmers Limited (Chairman since November 2015, Director since June 2015).
- Director, Centre for Independent Studies (since October 2000).
- Chancellor, University of Western Australia (since December 2005).
- Member, Commonwealth Science Council (since October 2014).
- Member, Australia-Germany Advisory Group (since February 2015).
- Former Chairman, Gresham Partners Holdings Limited (from July 2005 to May 2015).
- Former Member, JP Morgan International Council (from October 2003 to October 2014).

Board Committee membership:

- Chairman of the Board Nomination Committee.

Report of the Directors

Directors' information (continued)

Mr Rizzo retired from the Board on 17 December 2015

Mr Paul J Rizzo BCom, MBA

Age: 72

Term of office: Director from September 2004 to December 2015

Independent: Yes

Skills & Experience: Over 40 years of experience in banking and finance. Formerly Dean and Director of Melbourne Business School from 2000 to 2004, Group Managing Director, Finance and Administration, Telstra Corporation Limited from 1993 to 2000, senior roles at Commonwealth Bank of Australia from 1991 to 1993, Chief Executive Officer of State Bank of Victoria in 1990 and 24 years with Australia and New Zealand Banking Group Ltd from 1966 to 1990.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Chairman, Defence Audit and Risk Committee for the Australian Government Department of Defence (since February 2008).
- Director, Australian Submarine Corporation Pty Ltd (since December 2013).
- Former Chairman, The Rizzo Report Implementation Committee for Defence (from September 2011 to November 2014).
- Former Chairman, the Foundation for Very Special Kids (from July 2004 to June 2015).

Board Committee membership:

- Member of the Board Risk Committee.
- Member of the Board Audit Committee.
- Member of the Board Nomination Committee.
- Member of the Board Information Technology Committee.

Company Secretaries

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

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

Ms Elizabeth Melville-Jones BA, LLB, MBA joined the Group in 2015 and was appointed as an assistant company secretary in September 2015. She is the Secretary to the Board Audit Committee and supports the Group Company Secretary in the structure and operation of NAB's corporate governance framework and compliance obligations, including managing the Australian Secretariat.

Mr Nathan Butler LLB (Hons), LLM, BA (Jur), joined the Group in 2001 and was appointed as a company secretary in May 2008. Mr Butler resigned as a company secretary and an employee of the Group on 10 February 2016.

Mr Ashley Warmbrand BCom, LLB (Hons), joined the Group in 2008 and was appointed as an assistant company secretary in September 2015. Mr Warmbrand resigned as an assistant company secretary and an employee of the Group on 30 August 2016.

Directors' and officers' Indemnity

NAB's constitution

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

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

except to the extent that:

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

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

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

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

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

Directors' and officers' insurance

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

Report of the Directors

Directors' information (continued)

Directors attendances at meetings

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

Directors	Board ⁽¹⁾		Audit Committee		Risk Committee		Nomination Committee		Remuneration Committee		IT Committee ⁽²⁾		Directors' meetings of controlled Entities ⁽³⁾		Additional meetings ⁽⁴⁾
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	Attended
Ken Henry ⁽⁵⁾	22	22	3	3	7*	7	3*	3	13*	13	-	-	3	3	23
David Armstrong	22	22	11*	11	14*	14	3*	3	3	3	3*	3	3	3	25
Phil Chronican ⁽⁶⁾	10	10	1	1	5*	5	2*	2	6*	6	-	-	1	1	4
Daniel Gilbert	22	22	3	3	6	6	3*	3	13*	13	3*	3	3	3	15
Peeyush Gupta	22	22	4	4	14*	14	3*	3	13*	13	1	1	53	54	-
Geraldine McBride	17	22	2	2	5	5	3*	3	1	1	3*	3	3	3	-
Doug McKay ⁽⁷⁾	14	14	6*	6	1	1	3*	3	-	-	-	-	23	23	-
Anne Loveridge ⁽⁸⁾	17	17	8*	8	4	4	3*	3	1	1	-	-	2	2	5
Jillian Segal	18	22	4	4	14*	14	3*	3	13*	13	3*	3	3	3	10
Andrew Thorburn	21	22	4	4	13	13	2*	2	11	11	1*	3	3	3	7
Anthony Yuen	22	22	11*	11	14*	14	3*	3	3	3	-	-	3	3	7
Michael Chaney ⁽⁹⁾	6	6	1	1	3	3	-	-	4	4	-	-	2	2	1
Paul Rizzo ⁽⁹⁾	6	6	5*	5	4*	6	-	-	1	1	1*	1	2	2	4

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

A Number of meetings (including meetings of Board committees) attended during the period.

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

⁽¹⁾ There were a number of special purpose meetings held during the year of which 11 were scheduled Meetings.

⁽²⁾ The Board Information Technology Committee was stood down by the Board in September 2016, as the significant technology projects it was established to monitor were largely complete.

⁽³⁾ Where a controlled entity holds board meetings in a country other than the country of residence of the Director, or where there may be a potential conflict of interest, then the number of meetings held is the number of meetings the director was expected to attend, which may not be every board meeting held by the controlled entity during the year.

⁽⁴⁾ Reflects the number of additional formal meetings attended during the year by each Director, including committee meetings (other than Audit Committee, Risk Committee, Remuneration Committee, Nomination Committee or Information Technology Committee) where any two Directors are required to form a quorum.

⁽⁵⁾ Dr Henry resigned as Chairman of the Board Risk Committee and as a member of the Remuneration Committee in December 2015, when he assumed the position of Chairman of the Board.

⁽⁶⁾ Mr Chronican commenced effective 2 May 2016.

⁽⁷⁾ Mr McKay commenced effective 1 February 2016.

⁽⁸⁾ Ms Loveridge commenced effective 15 December 2015.

⁽⁹⁾ Mr Chaney and Mr Rizzo retired effective 17 December 2015.

For more information on Board Committee memberships, please refer to the NAB 2016 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance.

Report of the Directors

Directors' information (continued)

Directors' and executives' interests

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

	National Income Securities	Performance rights over NAB fully paid ordinary shares ⁽¹⁾	NAB fully paid ordinary shares ⁽²⁾
	No.	No.	No.
Directors			
KR Henry (Chairman)	-	-	6,860
DH Armstrong	-	-	8,480
PW Chronican	982	-	30,000
DT Gilbert	1,253	-	17,486
PK Gupta	-	-	6,480
AJ Loveridge	-	-	9,000
GC McBride	-	-	3,960
DA McKay	-	-	2,000
JS Segal	180	-	17,184
AG Thorburn	-	679,958	117,990
AKT Yuen	-	-	10,464
Senior executives			
AJ Cahill	-	164,968	58,146
CA Carver	-	-	66,963
AD Gall	-	138,986	91,269
AP Hagger	-	339,895	139,009
AJ Healy	-	193,543	30,889
MR Lawrance	-	32,583	62,843
GA Lennon	-	51,799	48,829
A Mentis	-	165,223	35,441
LN Murphy	-	-	30,944

⁽¹⁾ Further details of performance rights are set out in Note 39 - Shares and performance rights in the Financial report and Section 5.4 of the Remuneration report.

⁽²⁾ Information on shareholdings is disclosed in Section 5.4 of the Remuneration report.

The Directors from time-to-time invest in various debentures, registered schemes and securities offered by NAB and certain subsidiaries of NAB. The level of interests held directly and indirectly by a director as at 30 September 2016 were:

Directors	Nature of product	Relevant interest (Units)
DH Armstrong	Convertible Preference Shares II	900
DT Gilbert	NAB Subordinated Notes	1,253
PK Gupta	MLC Private Equity Co-Investment Funds	600,000
PK Gupta	MLC PIC-Wholesale Inflation Plus Assertive Fund	529,703

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

Report of the Directors

Directors' information (continued)

Executive performance rights

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

All performance rights that have not expired are detailed below.

The number and terms of performance rights granted by NAB during 2016 under the performance rights plan, including the number of performance rights exercised during 2016, are shown in the following table:

Exercise period⁽¹⁾	Number held at 30 September 2016	Number exercised from 1 October 2015 to 30 September 2016	Number granted since 1 October 2015
Performance rights⁽²⁾			
1 January 2012 - 1 January 2016	-	-	-
23 May 2013 - 23 November 2015	-	-	-
15 May 2014 - 15 November 2015	-	-	-
23 May 2014 - 23 November 2015	-	-	-
4 December 2014 - 4 June 2016	-	4,879	-
15 May 2015 - 15 November 2015	-	-	-
23 May 2015 - 23 November 2015	-	2,646	-
4 June 2015 - 4 December 2016	-	20,344	-
14 June 2015 - 14 December 2015	-	-	-
1 November 2015 - 1 May 2016	-	9,498	-
4 December 2015 - 4 June 2016	-	184,928	-
17 December 2015 - 15 March 2016	-	111,553	-
22 May 2016 - 22 November 2016	3,348	13,950	-
4 June 2016 - 4 December 2016	-	19,326	-
17 June 2016 - 15 September 2016	-	15,780	-
4 November 2016 - 4 May 2017	3,374	-	-
18 November 2016 - 18 February 2017	121,514	-	136,713
17 December 2016 - 15 March 2017	109,566	-	-
19 December 2016 - 19 June 2018	1,430,767	-	-
22 May 2017 - 22 November 2017	8,171	-	-
17 June 2017 - 15 September 2017	16,735	-	-
19 June 2017 - 19 December 2017	49,380	4,223	-
19 June 2017 - 19 December 2018	-	-	-
18 November 2017 - 18 February 2018	128,896	-	145,019
20 December 2017 - 20 June 2019	680,448	-	-
20 December 2017 - 15 March 2018	40,220	-	40,220
20 June 2018 - 20 December 2019	77,214	-	-
21 December 2018 - 15 March 2020	1,061,886	-	-
21 June 2019 - 15 September 2020	90,424	-	-
21 December 2019 - 15 March 2020	1,101,538	-	1,236,600

⁽¹⁾ Performance rights will expire if not exercised by the last day of their exercise period.

⁽²⁾ Further details of performance rights are set out in Note 39 - Shares and performance rights in the Financial report. All shares issued or transferred on exercise of performance rights are NAB fully paid ordinary shares. No exercise price is payable for performance rights.

Performance rights on issue and number exercised

There are currently 4,533,967 performance rights which are exercisable, or may become exercisable in the future under the performance rights plan. There are currently 161 holders of performance rights.

NAB has issued 744 fully paid ordinary shares since 30 September 2016 as a result of performance rights granted being exercised, for no consideration.

For the period 1 October 2015 to the date of this report, 143,635 performance rights expired as they were not exercised before their expiry date and 872,039 performance rights lapsed.

Persons holding performance rights are entitled to participate in certain capital actions by NAB (such as rights issues and bonus issues) in accordance with the terms of the ASX Listing Rules which govern participation in such actions by holders of options and rights granted by listed entities. The terms of the performance rights reflect the requirements of the ASX Listing Rules in this regard.

Report of the Directors

Other matters

Litigation and disputes

(i) Legal proceedings

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business.

There are contingent liabilities in respect of claims, potential claims and court proceedings against entities of the Group. Where appropriate, provisions have been made. The aggregate of potential liability in respect thereof cannot be accurately assessed.

(ii) Class actions

In March 2013, a potential representative action against New Zealand banks was announced in relation to certain fees. On 20 August 2014, representative proceedings were filed against Bank of New Zealand (BNZ) with Litigation Lending Services (NZ) Limited funding the action. On 24 September 2014, 30 April 2015, 3 December 2015 and 4 May 2016, these proceedings were stayed. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

On 16 August 2016, a class action complaint was filed in the United States District Court for the Southern District of New York regarding alleged conduct concerning the Bank Bill Swap Reference Rate (BBSW), which is administered by the Australian Financial Markets Association. The complaint names a number of defendants, including NAB and BNZ and references the proceedings brought by ASIC against NAB, ANZ and Westpac in relation to BBSW. At this stage, NAB and BNZ have not been served with the complaint and the potential outcome of such proceeding cannot be determined with any certainty.

(iii) UK conduct issues and the Conduct Indemnity Deed

As part of the arrangements relating to the CYBG demerger, NAB and CYBG entered into a Conduct Indemnity Deed under which NAB agreed, subject to certain limitations, to provide an indemnity in respect of certain historic conduct liabilities (Capped Indemnity) up to a cap of £1.115 billion (Capped Indemnity Amount). The Capped Indemnity provides CYBG with economic protection against certain costs and liabilities (including financial penalties imposed by a regulator) resulting from conduct issues relating to:

- payment protection insurance (PPI), certain interest rate hedging products (IRHP) and certain fixed rate tailored business loans (FRTBLs); and
- other conduct matters, measured by reference to the following thresholds: (a) claims relating to an industry wide compensation customer redress program entered into as part of a settlement with a regulator exceeding £2.5 million, in aggregate; and (b) all other claims that exceed £5 million, in aggregate, and affect more than 50 customers,

which, in each case, relate to conduct in the period prior to 8 February 2016 (the Demerger Date) whether or not known at the Demerger Date. Such conduct issues include acts, omissions and agreements by or on behalf of CYBG Group with respect to customers which either constitute a breach of or failure to comply with applicable law or regulations, or are determined by CYBG in good faith to be reasonably likely on a balance of probabilities to constitute a breach of or failure to comply with applicable law or regulations.

It is not expected that payments to CYBG under the Capped Indemnity will be taxable in the hands of CYBG Group, but if tax were to be payable then the Conduct Indemnity Deed contains provisions pursuant to which NAB has agreed to compensate CYBG for any actual tax incurred that would not have been incurred but for the receipt of amounts under the Capped Indemnity.

Claims may be made by CYBG under the Capped Indemnity when it or any member of CYBG Group raises a new provision or increases an existing provision in respect of any such conduct issues. Under a loss sharing arrangement, CYBG will be responsible for 9.7% of the liabilities under any provision for such conduct issues with NAB responsible for the remainder under the Capped Indemnity up to the Capped Indemnity Amount. The Capped Indemnity is perpetual in nature, although NAB has rights in certain circumstances to negotiate arrangements to terminate the Capped Indemnity subject to the approval of the PRA.

For the full year ended 30 September 2016, CYBG has made claims under the Capped Indemnity (or indicated that it will make such claims) for £433 million, leaving £682 million outstanding as available support under the Capped Indemnity (Unutilised Indemnity Amount).

The Unutilised Indemnity Amount at any point in time is accounted for by NAB as a contingent liability, with any potential future losses incurred under the indemnity expensed within discontinued operations. The frequency and timing of any potential future losses is unknown. The amount of the Capped Indemnity that will be utilised by any potential future losses is unknown.

NAB collateralised its obligations under the Capped Indemnity by placing a cash deposit of £1.115 billion with The Bank of England from the Demerger Date. The cash deposit with The Bank of England has been reduced commensurate with the amounts claimed under the Capped Indemnity such that the cash deposit amount is equal to the Unutilised Indemnity Amount (plus accrued interest). The Unutilised Indemnity Amount is treated as a Common Equity Tier 1 (CET1) deduction for NAB.

Except for the Capped Indemnity and the tax provisions set out in the Conduct Indemnity Deed, CYBG has agreed to release NAB from liability for any other conduct-related claims by any member of CYBG Group against NAB.

NAB is in the process of making insurance claims in relation to certain UK conduct-related losses suffered by the Group. The outcome of such claims is uncertain.

(iv) Legal proceedings commenced by Australian regulators

Following an industry-wide review by ASIC into participants in the BBSW market, ASIC commenced Federal Court proceedings against NAB on 7 June 2016. ASIC has also commenced similar proceedings against two other market participants. ASIC's allegations against NAB include claims of market manipulation and unconscionable conduct in relation to trading in the BBSW market during the period June 2010 to December 2012. NAB disagrees with ASIC's allegations which means that the matter will be decided by the Federal Court process. NAB fully cooperated with ASIC's review which preceded the commencement of proceedings.

(v) Industry investigations by Australian regulators

The industry-wide investigations by ASIC and the ACCC into potential wrongdoing in relation to Spot FX trading are continuing. NAB is co-operating with ASIC and the ACCC and is responding to their inquiries. The potential outcomes of the investigations are uncertain at this time.

(vi) Wealth advice review

Since September 2014, the Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including potential unethical or misleading financial advice and compensation processes for consumers impacted by that advice. The Committee's comprehensive final report was due by 31 August 2016; however this inquiry lapsed when the parliamentary committees

Report of the Directors

Other matters (continued)

of the 44th Parliament ceased to exist on the dissolution of the Senate and House of Representatives on 9 May 2016 for the general election held on 2 July 2016.

On 21 October 2015, NAB began contacting certain groups of customers where there was a concern that they may have received non-compliant advice since 2009 to: (a) assess the appropriateness of that advice; and (b) identify whether customers had suffered loss as a result of noncompliant advice that would warrant compensation. These cases are progressing through the review program with compensation in some cases offered and paid. No case has progressed to another forum, typically the Financial Ombudsman Service.

The outcomes and total costs associated with this work are uncertain. NAB is also aware that two plaintiff law firms have advertised that they are investigating claims on behalf of NAB customers who have suffered losses as a result of financial advice received from NAB advisers. No formal action has been taken against the Group in this regard.

Future Developments

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

Proceedings on behalf of NAB

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

Events subsequent to reporting date

On 3 October 2016, the Group completed the sale of 80% of NAB Wealth's life insurance business to Nippon Life. Refer to *Note 41 - Discontinued operations* for further information.

There are no other matters, items, transactions or events of a material nature that have arisen in the interval between the end of the reporting period (30 September 2016) and the date of this report that, in the opinion of the directors, have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

Integrity of reporting

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

Further details on the role of the Board and its committees can be found in the NAB 2016 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance.

Environmental and social regulation

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

The operations of the Group are subject to the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER Act) as part of the legislative response to climate change in Australia. While this

legislation is not particular to the Group or significant in its impact, the Group complied with its requirements. The NGER Act requires the Group to report on the basis of the year from 1 July to 30 June (the environmental reporting year). The Group's Australian vehicle fleet and building related net energy use reported under the NGER Act for the 2016 environmental reporting year was 611,625 gigajoules (GJ) (2015: 652,454 GJ), which is approximately 71% of the Group's measured total energy use. The associated total greenhouse gas (GHG) emissions from fuel combustion (Scope 1) and from electricity use (Scope 2) were 128,436 tCO₂-e (2015: 141,405 tCO₂-e).

During the reporting year, the Group's net GHG emissions (Scope 1, 2 and 3), after accounting for use of certified renewable energy in the UK and Australia, were 218,417 tCO₂-e (2015: 255,940). The Group continues to implement an energy efficiency program, including energy efficiency opportunity assessments and sustainable building design. This helps to produce GHG emissions savings and contributes to the Group's carbon neutral status and delivery of the Group's climate change strategy. From 1 July 2006 to 30 June 2016, the Group identified 1,220 energy efficiency opportunities in Australia alone. Implemented initiatives are estimated to provide more than 345,675 GJ (2015: 292,203 GJ) of ongoing annual energy savings. This equated to avoided costs of over \$16.7 million in 2016 (2015: \$14 million in avoided costs). A further 10 energy efficiency opportunities are in progress or approved to proceed.

A key Australian energy efficiency project completed in September 2015, was the decommissioning of an obsolete data centre. As a result, data centre electricity use decreased by 13% from 2015 to 2016, and the associated GHG emissions reduced by around 9,600 tCO₂-e over the same period.

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

In the United Kingdom, the Group is a participant in the Carbon Reduction Commitment Energy Efficiency Scheme (CRC EE Scheme). The Group's UK-based GHG emissions reportable under the Scheme for the 2015/2016 compliance year (year ended 31 March 2016) totalled 0 tCO₂-e, as a result of the CYBG demerger (2015: 21,403 tCO₂-e), because NAB's UK operations do not directly purchase any energy. The Group's regulatory return was made in July 2016 as required by the CRC EE Scheme Order 2010. This year, the Group was not required to purchase and surrender CRC Allowances.

In 2014, the Group's UK-based operations became subject to the Energy Savings Opportunities Scheme (ESOS), which was introduced by the *ESOS Regulations 2014* which came into force in July 2014. The ESOS requires mandatory energy assessments (audits) of organisations' buildings and transport to be conducted every four years. In 2016, the Group met the requirements of the UK Environment Agency to carry out ESOS assessments and notify the regulator by 5 December 2015.

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

Report of the Directors

Other matters (continued)

financial products and services, play a key role in financing green growth and contribute to the environmental sustainability of the communities in which it operates. This is recognised in the Group's Environmental Agenda and response to climate change, which in addition to the Group's operational GHG reduction targets and programs, includes environmental financing such as project finance for renewable energy generation projects and NAB's Equipment Finance Energy Efficient Bonus Program (a \$120 million program with the Clean Energy Finance Corporation supporting Australian businesses investing in energy efficient equipment), and the structuring, arranging and issuance of green and climate bonds.

Further information about the Group's Environmental Agenda, resource efficiency targets and management approach is outlined in the Group's 2016 *Annual Review* and 2016 *Dig Deeper* report available at www.nab.com.au.

In October 2015, the UK Government's *Modern Slavery Act 2015* came into effect. NAB has prepared a Modern Slavery Act statement which sets out actions taken by the Group during 2016 to ensure that its business operations, and its supply chain, are free from slavery and human trafficking. It is available online at www.nab.com.au/modernslaverystatement in accordance with the Act.

Report of the Directors

Other matters (continued)

Past employment with external auditor

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

Non-audit services

Ernst & Young provided non-audit services to the Group during 2016. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2016 are as follows:

	Group 2016 \$'000
Audit related services	
Comfort letters	1,069
Regulatory	4,828
Non-regulatory	951
Total audit related services	6,848
All other services	
Project assurance and due diligence	599
Cyber security reviews	513
Benchmarking including end to end process reviews	210
Other including data quality and policy reviews	479
Total all other services	1,801
Total non-audit services	8,649

As set out in *Note 38 - Remuneration of external auditor*, total fees paid or due and payable for audit and non-audit services provided by Ernst & Young to the Group during 2016 amount to \$25.0 million.

Ernst & Young also provides audit and non-audit services to non-consolidated trusts of which a Group entity is trustee, manager or responsible entity and non-consolidated Group superannuation funds. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2016 total \$3.9 million.

In accordance with advice received from the Board Audit Committee, the directors are satisfied that the provision of non-audit services during the year to 30 September 2016 by Ernst & Young is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). The directors are so satisfied because the Board Audit Committee or its delegate has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the independence of Ernst & Young.

A description of the Board Audit Committee's pre-approval policies and procedures is set out in the NAB 2016 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance. Details of the services provided by Ernst & Young to the Group during 2016 and the fees paid or due and payable for those services are set out in *Note 38 - Remuneration of external auditor* of the Financial Report. A copy of Ernst & Young's independence declaration is set out on the following page.

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

As lead auditor for the audit of National Australia Bank Limited for the financial year ended 30 September 2016, I declare to the best of my knowledge and belief, there have been:

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

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

Ernst & Young

Ernst & Young

APC

Andrew Price
Partner
Melbourne

14 November 2016

Report of the Directors

Remuneration report

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Report of the Directors

Remuneration report (continued)

Introduction from the Remuneration Committee

Dear Shareholder,

NAB's vision is to be Australia and New Zealand's most respected bank. The Group's performance and remuneration frameworks aim to build a strong culture that encourages the right behaviours to deliver sustainable customer, shareholder and business outcomes. This report discusses 2016 performance and remuneration outcomes for the Group, directors and senior executives, as well as key changes to the Group's performance and remuneration frameworks for 2017.

NAB's focus is on the customer – through its people, policies and processes.

This clear focus on customer experience has been reinforced during the year. Changes were made to the organisational structure to help create a simpler, more customer-focused organisation.

Fixed remuneration increases and equity awards were approved by the Board for some senior executives. The Board's decision took account of independent market data, changes in role accountabilities, the performance of the senior executives and the need to retain the best talent.

NAB met financial performance targets relating to cash earnings, cash return on equity (ROE) and Return on Total Allocated Equity (ROTAE), resulting in a Short-Term Incentive (STI) pool for 2016. No STI payments may be made in a year where Group performance is not sufficient to form a pool.

Scorecards then determine how the STI pool is divided. We have simplified the short-term incentive plan for senior executives, concentrating on three key objectives focused on accelerating business performance which were equally weighted (1/3rd each) in scorecards. Management met expectations in relation to the two financial measures - cash earnings, which grew 4.2%, and a cash ROE result of 14.3%. Demonstrating the importance of our focus on customer and customer experience, the third performance measure for this year was Net Promoter Score (NPS)⁽¹⁾. NPS measures overall customer advocacy (whether customers would recommend NAB to family and friends) for priority customer segments⁽²⁾ within Australia. I am pleased to report NAB exceeded expectations in relation to NPS performance – having maintained or improved NPS in four of NAB's five priority segments (Mortgage Customers, Debt Free, Micro Business, Small Business and Medium Business).

Performance against these measures resulted in senior executives earning short-term incentives in 2016. Given the importance of risk management within the banking industry, a specific risk management focus for all employees including senior executives is included in assessing performance. If employees (including senior executives) do not manage risk effectively, their incentive may be at risk.

No Long-Term Incentive (LTI) grants were tested during 2016.

NAB and other Australian banks are experiencing criticism of the culture within the banking industry and the conduct of some people working for the banks. The Remuneration Committee (the Committee) has been, and remains focused on, these issues. Consequence management for breach of standards and non-compliance is regularly reviewed by the Committee, particularly at year end. Poor conduct and behaviours create risk for NAB. Should these occur, there are consequences including dismissal or reduced or zero variable rewards. These issues will continue to receive the strongest attention from the Committee and indeed the NAB Board. Employees' performance is also measured against how they are living and demonstrating all of NAB's values. NAB's values, particularly Passion for customers, Respect for people and Do the right thing, are designed to work in an integrated way to provide a direct link between NAB's culture and strategy.

Leadership, talent and people are critical enablers to delivering NAB's business strategy. As part of NAB's people strategy, emphasis is on people leaders driving performance every day to deliver results consistently with NAB's values. More regular performance conversations and frequent feedback will occur with the intent of improving individual and Group results.

This year the Committee reviewed the Group's performance and reward frameworks to deliver more effectively the Group's business strategy. The Board approved changes to the LTI plan to reflect the Group's goal to generate attractive returns for shareholders, as measured by the Group's cash ROE growth versus the other banks.

The Australian Banking Association's review of product sales commissions and product-based payments announced in April 2016 and the Government's review of Australia's four major banks will further discussion on these matters going forward. NAB will continue to play an active role in this area, ensuring the Group's performance and reward frameworks have the right measures and safeguards in place to support our customers.

Finally, as advised in last year's report, Board and Committee fees were increased during 2016 to remain competitive with comparable companies and to continue to attract and retain the best talent.

On behalf of the Board, I invite you take a look at our report and our approach to measuring and recognising performance. We always welcome your feedback and thank you for your interest and support.

Yours sincerely,



Danny Gilbert
Remuneration Committee Chairman

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

⁽²⁾ Priority Segments Net Promoter Score (NPS) is a simple average of the NPS scores of five priority segments: Mortgage Customers, Debt Free, Micro Business (<\$1m), Small Business (\$1m-<\$5m) and Medium Business (\$5m-<\$50m). The Priority Segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research.

Report of the Directors

Remuneration report (continued)

Section 1 - Remuneration overview

This report details remuneration arrangements for Key Management Personnel (KMP) of both NAB and the Group during 2016. The report is prepared in accordance with section 300A of the *Corporations Act 2001* (Cth).

1.1. Key remuneration outcomes during 2016

NAB's performance and remuneration frameworks (Frameworks) are designed to align employee remuneration outcomes with sustainable customer, shareholder and business outcomes. This is achieved through setting fixed remuneration competitively with the market in which NAB operates to attract, motivate and retain talented employees. Business performance, customer outcomes and delivery of NAB's strategy are recognised through the Group's annual incentive programs. NAB's Frameworks are underpinned by strict conduct and behaviour requirements impacting employee remuneration outcomes. Key remuneration outcomes for 2016 are:

- Cash earnings on a continuing operations basis up 4.2% over the year to \$6.48 billion.
- Cash return on equity (cash ROE) on a continuing operations basis decreased by 50 basis points to 14.3% compared to the September 2015 full year.
- Improvement in customer advocacy for NAB (measured by NAB's Priority Segment NPS) against the other major Australian banks which marginally exceeded target.
- The Group STI pool measures of cash earnings (40%), cash ROE (30%) and Return on Total Allocated Equity (ROTAE) (30%) were determined by the Board to have been achieved and as a result the Group STI pool was fully funded.
- Completion of a major divestment program exiting some non-core assets, including:
 - Full divestment of CYBG through a demerger and IPO in February 2016.
 - Sale of 80% of NAB Wealth's life insurance business to Nippon Life with effect from September 2016.This has simplified the Group and allows it to focus on its core Australian and New Zealand franchise markets.
- Overall Short-Term Incentive (STI) awards for senior executives have averaged 107% and are reflective of the Board's assessment of the Group's performance in 2016 (see **Section 2.1.** for more details).
- No Long-Term Incentive (LTI) awards were scheduled to be tested during 2016.
- Fixed remuneration increases and equity awards were approved by the Board for some senior executives during 2016. The Board's decision took account of independent market data, changes in role accountabilities, the performance of the senior executives and the need to retain the best talent. The Group CEO who performed above expectations did not receive an increase.
- Board and Committee fees were increased during 2016 to remain competitive with comparable companies and to continue to attract and retain the best talent (see **Section 4.1.**).

1.2. 2016 Changes

- Re-testing of LTI performance hurdles was removed from LTI awards granted from December 2015. This decision was made to align NAB's LTI with evolving market practice and taking into account shareholder and proxy adviser feedback.
- Refreshed the Conduct Gate framework demonstrating NAB's focus on compliance, providing a clearer definition of acceptable conduct for employees, reinforcing the cultural importance of 'doing the right thing' and embedding expectations in how performance is managed at NAB.

1.3. Changes to the remuneration and performance frameworks for 2017

During the year the Group's Frameworks were reviewed. This was to reinforce that the Frameworks continue to drive the right behaviours and culture and help NAB deliver on its business strategy. The right behaviours and culture must conform to NAB's values and the high standards set by the NAB Board. They must reflect what is expected from NAB by its shareholders, its customers and the communities in which NAB operates.

- A cash ROE growth performance hurdle will replace the relative S&P/ASX Top 50 Index Total Shareholder Return (TSR) performance hurdle for LTI awards from December 2016 (see **Section 3.4.** for more details). The cash ROE growth performance hurdle and the existing Top Financial Services TSR hurdle provide closer alignment to NAB's objective to generate attractive return on equity.
- Performance is a key area of focus for NAB's people strategy. The following are important elements in supporting the Group's desired performance culture and will form the basis of the Frameworks for all employees including senior executives from 2017 onwards:
 - Emphasis on people leaders actively managing their team members' performance, behaviours and conduct every day to deliver individual and organisational results, with monthly conversations to track performance and provide frequent feedback on achievement, progress and areas of concern.
 - In addition to delivery on core role responsibilities, simple scorecards will have up to three key stretch objectives, all of which are focused on accelerating the business and delivering on NAB's strategy, as well as an explicit risk management objective.
 - NAB's values (Passion for customers, Will to win, Be bold, Respect for people and Do the right thing) are integral in assessing employee performance. NAB's values are principles that guide employees in how best to meet the needs of NAB's customers and contribute to the Group's business strategy.
 - A simplified five-point integrated rating to assess employee's performance against the scorecard objectives, risk management and NAB's values.
 - Conduct and behaviours are critical to ensuring the right customer outcomes. Unacceptable conduct and behaviours can have serious consequences, including dismissal, reduced or zero variable rewards, ineligibility for fixed remuneration increases and/or potential career impacts.

Report of the Directors

Remuneration report (continued)

1.4. Key Management Personnel

KMP are the Directors of NAB and those employees of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group. KMP during 2016 were:

Table 1: Key management personnel

Name	Position	Term as KMP
Executive director		
Andrew G Thorburn	Group Chief Executive Officer	Full year
Other senior executives		
Antony J Cahill ⁽¹⁾	Chief Operating Officer	Full year
Cathryn A Carver	Acting Chief Customer Officer - Corporate & Institutional Banking (from 1 August 2016)	Part year
A David Gall	Chief Risk Officer	Full year
Andrew P Hagger ⁽²⁾	Chief Customer Officer - Consumer Banking & Wealth Management	Full year
Anthony J Healy	Chief Executive Officer Bank of New Zealand	Full year
Matthew R Lawrance	Acting Chief Technology & Operations Officer (from 5 September 2016)	Part year
Gary A Lennon	Chief Financial Officer (from 15 March 2016)	Part year
Angela Mentis ⁽³⁾	Chief Customer Officer - Business & Private Banking	Full year
Lorraine N Murphy ⁽⁴⁾	Chief People Officer (from 15 March 2016)	Part year
Former senior executives		
Craig M Drummond	Group Executive, Finance and Strategy (to 14 March 2016)	Part year
Michaela J Healey	Group Executive, Governance and Reputation (to 31 July 2016)	Part year
Robert A Melrose	Acting Chief Technology & Operations Officer (from 1 August to 31 August 2016)	Part year
Renée M Roberts	Group Executive, Enterprise Services and Transformation (to 31 July 2016)	Part year
Gavin R Slater	Group Executive, Personal Banking (to 31 July 2016)	Part year
Non-executive directors		
Kenneth R Henry ⁽⁵⁾	Non-executive director, Chairman	Full year
David H Armstrong	Non-executive director	Full year
Phillip W Chronican	Non-executive director (from 2 May 2016)	Part year
Daniel T Gilbert	Non-executive director	Full year
Peeyush K Gupta	Non-executive director	Full year
Anne J Loveridge	Non-executive director (from 15 December 2015)	Part year
Geraldine C McBride	Non-executive director	Full year
Douglas A McKay	Non-executive director (from 1 February 2016)	Part year
Jillian S Segal	Non-executive director	Full year
Anthony KT Yuen	Non-executive director	Full year
Former non-executive directors		
Michael A Chaney	Non-executive director, Chairman (to 17 December 2015)	Part year
Paul J Rizzo	Non-executive director (to 17 December 2015)	Part year

⁽¹⁾ Mr Cahill held the position of Group Executive, Product and Markets until 31 July 2016 and then Chief Operating Officer from 1 August 2016.

⁽²⁾ Mr Hagger held the position of Group Executive, NAB Wealth until 31 July 2016 and then Chief Customer Officer - Consumer Banking & Wealth Management from 1 August 2016.

⁽³⁾ Ms Mentis held the position of Group Executive, Business Banking until 31 July 2016 and then Chief Customer Officer - Business & Private Banking from 1 August 2016.

⁽⁴⁾ Ms Murphy's role title changed from Group Executive, People to Chief People Officer on 1 August 2016.

⁽⁵⁾ Dr Henry was appointed as Chairman of the Board from 17 December 2015.

KMP changes after 30 September 2016

Mr Gilbert and Ms Segal will retire as directors of NAB in December 2016. No other KMP changes have been announced or are expected to occur after 30 September 2016.

Report of the Directors

Remuneration report (continued)

1.5. Senior executive remuneration framework overview

The following table shows the components that make up reward at NAB for senior executive KMP.

Table 2: Reward components - senior executives

	Reward component	Measured by	Link to strategy and performance
Fixed	<p>Fixed Remuneration</p> <p>Provided as cash and benefits (including employer superannuation)</p>	<p>Role</p> <p>Core role responsibilities</p>	<p>Attract, retain and engage key talent</p> <p>Considerations:</p> <ul style="list-style-type: none"> • Capability and experience • Relevant remuneration range • Relevant internal relativities • Work performance where applicable • Pay equity
At-Risk	<p>Short-Term Incentive</p> <p>50% provided as cash at the end of the performance year</p> <p>50% provided in performance rights and deferred</p> <p>Half of the performance rights are subject to a 1 year vesting period and the other half a 2 year vesting period</p>	<p>Group STI Pool</p> <p>Generated based on cash earnings (40%), cash ROE (30%) and ROTAE (30%) performance</p> <p>Individual performance assessed on Group measures (equally weighted)</p> <ul style="list-style-type: none"> • Cash earnings – delivering results • Cash ROE – Generating sustainable returns for shareholders • Customer Advocacy (Priority Segments NPS) – Turning customers into advocates <p>A qualitative overlay to reflect the Group's management of business risks, shareholder expectations and the quality of the financial results</p> <p>Leadership</p> <ul style="list-style-type: none"> • Risk Management • Divisional financial and non-financial measures • NAB's values <ol style="list-style-type: none"> 1. Passion for customers 2. Will to win 3. Be bold 4. Respect for people 5. Do the right thing <p>Conduct Gate</p> <p>The level of conduct that is expected of all employees.</p>	<p>Align short-term remuneration with delivery of NAB's strategy and shareholder outcomes</p> <p>Variable reward component designed to:</p> <ul style="list-style-type: none"> • Align short term employee rewards to Group performance for the current performance year and support sustainable returns for shareholders; • Support the Group's performance, conduct and behavioural expectations of employees; and • Appropriately capture the business risks related to achievement of business outcomes.
	<p>Long-Term Incentive</p> <p>Provided in performance rights subject to performance conditions measured over four years</p>	<p>2016 (Allocated December 2015)</p> <p>Total Shareholder Return (TSR):</p> <ul style="list-style-type: none"> • Relative to S&P/ASX 50 index (50% weighting) • Relative to Top Financial Services peer group (50% weighting) <p>2017 (Allocated December 2016)</p> <ul style="list-style-type: none"> • Cash ROE growth ranking against other major Australian banks (50% weighting) • Relative TSR to Top Financial Services peer group (50% weighting) <p>Conduct Gate (as above)</p>	<p>Encourages sustainable performance in the longer term</p> <p>Variable reward component designed to:</p> <ul style="list-style-type: none"> • Support the longer term strategy of the Group; and • Remain at risk until the performance rights vest.

Further detail on NAB's STI and LTI arrangements is provided in **Section 3.4**.

Report of the Directors

Remuneration report (continued)

Section 2 - Linking performance and remuneration

2.1. 2016 short-term incentive outcomes

The Group STI pool measures of cash earnings (40%), cash ROE (30%) and ROTAE (30%) were determined by the Board to have been achieved and as a result the Group STI pool was fully funded and available for distribution to employees based on individual performance.

Individual senior executive performance is assessed against three key measures supporting the Group's strategy and business objectives. The table below details the key measures used in 2016 to assess individual senior executive performance outcomes.

Table 3 : Senior executives' STI performance measures

Measure ⁽¹⁾	Weighting	Outcomes
Cash earnings ⁽²⁾ <i>Delivering results</i>	1/3	<p>The Board determined that results Met Expectations</p> <ul style="list-style-type: none"> Cash earnings (on a continuing operations basis) were \$6,483 million for the September 2016 year, an increase of 4.2% compared to the September 2015 year. The result is driven by higher net operating income, partially offset by higher operating expenses and higher charges for bad and doubtful debts. Revenue increased 2.5% for the September 2016 year when compared to the September 2015 year. Excluding gains in the March 2015 half year from a legal settlement and the UK Commercial Real Estate loan portfolio sale and SGA asset sales, revenue rose approximately 3.7%, benefitting from higher lending balances and stronger Markets and Treasury income. Group net interest margin declined 2 basis points mainly due to higher funding costs. Expenses rose by 2.2% for the September 2016 year when compared to the September 2015 year. Key drivers include higher personnel costs and increased technology related amortisation and project spend, partly offset by productivity savings. Expenses in the September 2016 half year were tightly managed, declining 1.9% compared to the March 2016 first half.
Cash ROE ⁽²⁾ <i>Generating sustainable returns for shareholders</i>	1/3	<p>The Board determined that results Met Expectations</p> <ul style="list-style-type: none"> Cash ROE on continuing businesses decreased by 50 basis points to 14.3% compared to the September 2015 full year, mainly due to the full year dilutionary effects of the \$5.5 billion capital raising that occurred in the September 2015 half year. The Group's Common Equity Tier 1 (CET1) ratio was 9.8% as at 30 September 2016, an increase of 8 basis points from 31 March 2016 reflecting the sale of 80% of NAB Wealth's life insurance business and strong capital generation, largely offset by the impact of higher mortgage risk weights from 1 July 2016. The Group's CET1 target ratio remains between 8.75% - 9.25% based on current regulatory requirements.
Priority Segments NPS ⁽³⁾ <i>Turning customers into advocates</i>	1/3	<p>The Board determined that results Exceeded Expectations</p> <ul style="list-style-type: none"> The NPS target for 2016 was to maintain NAB's 2015 Priority Segments NPS majority rank and close the gap to first, while continuing to implement the net promoter system. NAB's Priority Segments NPS majority rank improved during 2016 from third to first. NAB led the four major banks in Priority Segments NPS for 10 months during the performance period. NAB has improved its position in the Debt Free, Micro Business and Small Business segments, moving from a majority rank of third to first of the four majors for the Small Business segment, from second to first of the four majors for the Debt Free segment, and third to second for the Micro Business segment. In the Mortgage Customers segment, NAB experienced a decline in its majority rank position from equal first to second. Good progress has been made on activities to improve the customer experience by enhancing our technology and digital offerings, as well as process improvements making it easier for customers to deal with NAB. Acceleration of the delivery of digital initiatives including NAB Pay, Business in One (the digital hub pilot for small banking customers), the launch of NAB Dash which streamlines the consumer-merchant experience and NAB QuickBiz loans which offers quick online unsecured loans to small business. Completion of the national roll out of NAB's Personal Banking Origination Platform. The customer experience for both secured and unsecured consumer lending will be greatly enhanced by greater visibility of the application progress, fewer touches and improved turnaround times.

⁽¹⁾ Refer to the Glossary for definitions of cash earnings and cash ROE.

⁽²⁾ Information is presented on a continuing operations basis including prior period restatement for 2015 only.

⁽³⁾ Net Promoter[®] and NPS[®] are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetix Systems and Fred Reichheld. Priority segments Net Promoter Score (NPS) is a simple average of the NPS scores of five priority segments: Mortgage Customers, Debt Free, Micro Business (<\$1m), Small Business (\$1m-<\$5m) and Medium Business (\$5-<\$50m). The Priority Segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research.

Report of the Directors

Remuneration report (continued)

Each senior executive is also assessed based on their demonstration of NAB's values, adherence to appropriate risk management practices and other divisional and non-financial measures. The following table details the 2016 STI amounts provided in relation to 2016 performance.

Table 4 : 2016 senior executive STI outcomes

Name	STI target	Actual STI as % of STI Target	STI actual	Cash STI ⁽¹⁾	Deferred STI (approx. 1 year) ⁽²⁾	Deferred STI (approx. 2 year) ⁽³⁾
	\$	%	\$	\$	\$	\$
Executive director						
AG Thorburn	2,300,000	120	2,760,000	1,380,000	690,000	690,000
Other senior executives						
AJ Cahill	1,000,000	120	1,200,000	600,000	300,000	300,000
CA Carver (for part year)	177,767	100	177,767	133,325	44,442	-
AD Gall	720,000	120	864,000	432,000	216,000	216,000
AP Hagger	1,100,000	120	1,320,000	660,000	330,000	330,000
AJ Healy	973,554	100	973,554	486,777	243,388	243,388
MR Lawrance (for part year)	30,725	160	49,160	36,870	12,290	-
GA Lennon (for part year)	549,618	100	549,618	274,809	137,405	137,405
A Mentis	1,000,000	120	1,200,000	600,000	300,000	300,000
LN Murphy (for part year)	700,000	100	700,000	350,000	175,000	175,000
Former senior executives						
MJ Healey (for part year)	704,008	100	704,008	528,006	176,002	-
RA Melrose (for part year)	17,557	160	28,092	21,069	7,023	-
RM Roberts (for part year)	828,244	100	828,244	621,183	207,061	-
GR Slater (for part year)	911,069	90	819,962	614,971	204,990	-

⁽¹⁾ The amount reflects 50% of the STI to be provided to eligible current senior executives (except Ms Carver and Mr Lawrance) and the executive director. The amount reflects 75% of the STI to be provided to Ms Carver, Mr Lawrance and eligible former senior executives. The cash component of the STI received in respect of 2016 is scheduled to be paid on 16 November 2016 in Australia and 1 December 2016 in NZ.

⁽²⁾ The amount reflects 25% of the STI to be provided to eligible senior executives and the executive director. The amount is provided in performance rights or shares to be allocated in February 2017 and restricted for approximately 14 months. The amount shown for Ms Healey, Mrs Roberts and Mr Slater is expected to be paid as cash in November 2017. See Section 3.4. for more details.

⁽³⁾ The amount reflects 25% of the STI to be provided to eligible current senior executives and the executive director. The amount is provided in performance rights to be allocated in February 2017 and restricted for approximately 26 months. See Section 3.4. for more details.

Figure 1 shows the average of the senior executives STI payment (including cash and deferred amounts) as a percentage of their STI target, and its relationship to the Group's cash earnings and cash ROE over the last five years. The Group's cash earnings and cash ROE are two key internal measures of performance and are instrumental in determining the size of the STI pool. The average individual STI payment reflects both business and individual performance. The average STI payments in the graph include the senior executives in each of those years. The 2016 average in the graph is based on the total STI payable (including deferred amounts) for each of the 2016 senior executives.

The Group's 2016 and 2015 cash earnings and cash ROE amounts are on a continuing operations basis. See the *Principal Accounting Policies* on page 69 for further information.

Figure 2 shows NAB's Priority Segments NPS performance.

Figure 1: Average senior executive STI payments

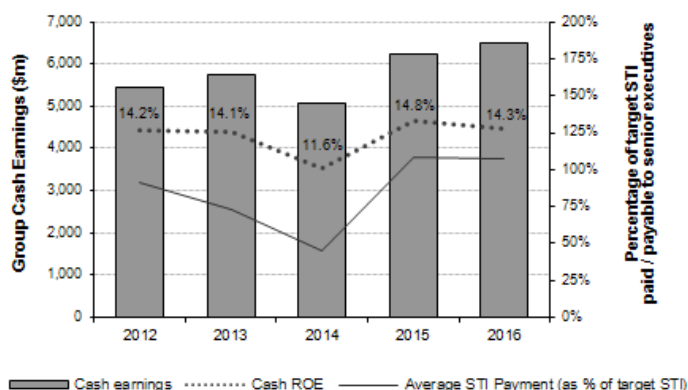
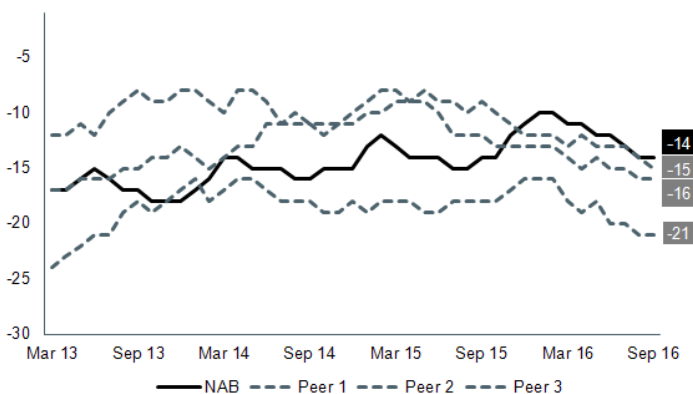


Figure 2: Priority Segments NPS vs peers



Report of the Directors

Remuneration report (continued)

2.2. 2016 long-term incentive outcomes

No LTI awards were scheduled to be tested during 2016 due to the performance period of the LTI moving from three to four years in 2012. As a result, senior executives received no actual value from the LTI plan during 2016. The next LTI test will be the 2012 LTI award in December 2016.

2.3. Five year Group performance

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

Table 5: Five year Group performance

	2016	2015	2014	2013	2012
Basic earnings per share (cents) ⁽¹⁾	242.4	271.7	214.1	225.9	175.3
Cash earnings (\$m) ⁽¹⁾	6,483	6,222	5,055	5,747	5,433
Dividends paid per share	\$1.98	\$1.98	\$1.96	\$1.83	\$1.78
Company share price at start of year	\$29.98	\$32.54	\$34.32	\$25.49	\$22.37
Company share price at end of year	\$27.87	\$29.98	\$32.54	\$34.32	\$25.49
Absolute TSR for the year	(0.7%)	(2.0%)	0.4%	42.9%	22.4%

⁽¹⁾ Information is presented on a continuing operations basis including prior period restatement for 2015 only.

The *Glossary* of the *Financial report* contains a definition of cash earnings and *Note 36 - Earnings per share* in the *Financial report* details the calculation of basic earnings per share. Refer to the *Financial report* for details of statutory net profit attributable to owners of NAB, and to *Note 2 - Segment information* in the *Financial report* for a reconciliation between cash earnings and statutory net profit attributable to owners of NAB.

Report of the Directors

Remuneration report (continued)

Section 3 - Remuneration arrangements

3.1. Remuneration governance

The Remuneration Committee (the Committee) has been established by the Board. Its Charter (which is approved by the Board) sets out the membership, responsibilities, authority and activities of the Committee. The full Charter is available online at www.nab.com.au. Information on the governance, membership, operations and activities of the Committee are detailed in the NAB 2016 Corporate Governance Statement, which is available online at www.nab.com.au/about-us/corporate-governance.

The Group operates a global remuneration policy that is reviewed by the Committee and approved by the Board at least annually to maintain alignment with business and regulatory requirements.

Committee decisions and recommendations are made as far as practicable to align remuneration with performance, customer, culture, and shareholder outcomes, in accordance with regional regulatory requirements and global regulatory trends. The Committee has established regional sub-committees across the Group to assist with remuneration decisions. The Committee's remuneration decisions are based on a risk adjusted view of the Group's financial performance through:

Risk assessment – Risk is set and monitored through the risk appetite framework.

Performance Assurance – The Committee reviews information on financial and risk performance, regulatory changes and market practices to assist in assessing the overall performance of the Group.

Determining remuneration outcomes – At the end of each year a formal report is provided by the Group CEO, Chief Risk Officer (CRO) and Chief Financial Officer to the Committee capturing the Group's risk and financial outcomes and assessing the overall health of the financial result. This information is provided by the Risk and Finance functions. The assessment of risk outcomes includes:

- Performance against the Board approved risk appetite.
- The Group's overall risk profile (taking the right risk, with the right controls, for the right return).
- Timely escalation and management of events and breaches.
- Individual risk performance assessments and outcomes of senior management.
- Prudential compliance, breaches and incidents.

A joint meeting of the Committee and the Board Risk Committee is held to review the report's findings. The Committee has discretion to recommend to the Board the adjustment of incentive outcomes for the current year and vary vesting of deferred incentives and long-term incentives if the Group's financial performance or risk management have significantly deteriorated over the vesting period. In addition, a qualitative overlay may be applied by the Committee that reflects the Group's management of business risks, shareholder expectations and the quality of the financial results.

The Committee invites the Chairman of the Board and members of the management team, including the CRO, to assist in its deliberations (except concerning their individual remuneration). The CRO is required to attend meetings where risk-adjusted remuneration measures are discussed.

3.2. Use of external advisers

Where appropriate, the Committee seeks and considers advice directly from external advisers, who are independent of management. The Committee retained 3 *degrees consulting* to review and provide recommendations and advice on remuneration and governance matters. Under the terms of NAB's retainer arrangement with 3 *degrees consulting*, the Committee's external remuneration consultant provided remuneration advice to the Committee (inclusive of 'remuneration recommendations' as defined in section 9B of the *Corporations Act 2001* (Cth)). As at 30 September 2016, \$10,000 (excluding GST and expenses) of fees had been paid to 3 *degrees consulting* during 2016 in relation to 'remuneration recommendations' for KMP and a further \$125,000 (excluding GST and expenses) for providing advice on remuneration and governance matters more generally.

The Committee has established protocols for engaging with its external remuneration consultant to support compliance with the *Corporations Act 2001* (Cth). These protocols are reflected under the terms of NAB's retainer arrangement with 3 *degrees consulting* and have been adhered to. The Committee's external remuneration consultant provided a formal declaration confirming that the recommendations provided were free from 'undue influence' by KMP to whom the recommendations related. On this basis, the Board is satisfied that the recommendations were made free from undue influence by KMP to whom the recommendations related.

3.3. Insider trading and derivatives policy

The Group Securities Trading Policy specifically prohibits directors and employees from protecting the value of unvested securities (including unvested LTI or deferred STI) with derivative instruments consistent with the *Corporations Act 2001* (Cth) requirements on hedging. Directors and employees can protect the value of vested securities in limited circumstances, as described in the Group Securities Trading Policy. Non-executive directors have not received securities as part of their remuneration arrangements since 2009. Further details on the Group Securities Trading Policy are set out in the NAB 2016 Corporate Governance Statement. The NAB 2016 Corporate Governance Statement and the Group Securities Trading Policy are available online at www.nab.com.au.

3.4. Remuneration policy for senior executives

The Group's remuneration policy uses a range of components to focus senior executives on achieving the Group's strategy and business objectives. The Group's overall philosophy is to adopt, where possible, a methodology which links remuneration directly to the performance and behaviour of an individual, the Group's results and shareholder outcomes. The Group's senior executive remuneration policy recognises and rewards performance consistent with general practices within the markets in which the Group operates.

Report of the Directors

Remuneration report (continued)

The remuneration policy is designed to:

- Attract, recognise, motivate and retain high performers.
- Drive senior executive performance.
- Align the interests of senior executives and shareholders through ownership of NAB securities.
- Comply with jurisdictional remuneration regulations and Group diversity, inclusion and pay equity commitments.

In setting an individual's remuneration, the Board considers:

- Internal relativities.
- Individual and Group performance over the last year.
- Recommendations from the Group CEO on the remuneration arrangements for senior executives who report directly to the Group CEO.
- Advice from the Committee's external remuneration consultant, *3 degrees consulting*.
- Market data from comparable roles with companies listed on the Australian Securities Exchange (ASX) - the peer group of 18 companies chosen contains NAB's major competitors and is large enough to provide meaningful market data information.
- General remuneration market environment and trends.

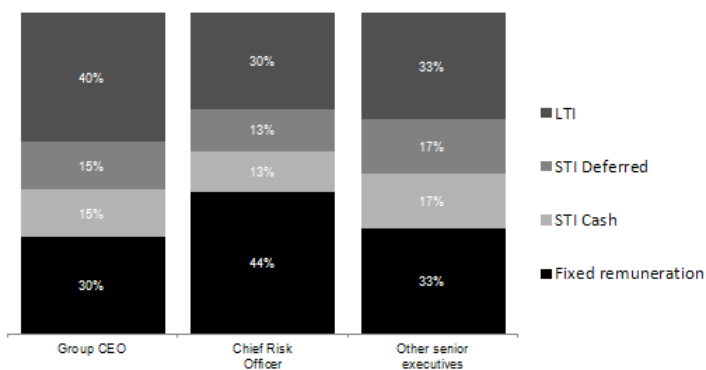
Reward mix

- The fixed component is competitive with the market to attract, retain and motivate a high performing executive team.
- The 'at risk' components are sufficiently meaningful to drive performance and align senior executive remuneration with business outcomes and the creation of shareholder value.

The CRO role plays an important part in oversight of the financial and risk performance of the Group and its employees. The reward mix set for the CRO is structured to recognise these responsibilities and to support the independence required of this role through providing a higher proportion of fixed remuneration and placing more emphasis towards the LTI reward component of the 'at risk' components, than other senior executives.

The reward mix (excluding acting senior executives) for 2016 is:

Figure 3: Reward mix



The 2016 actual reward mix for each senior executive will vary depending on performance outcomes and is shown in **Table 9**.

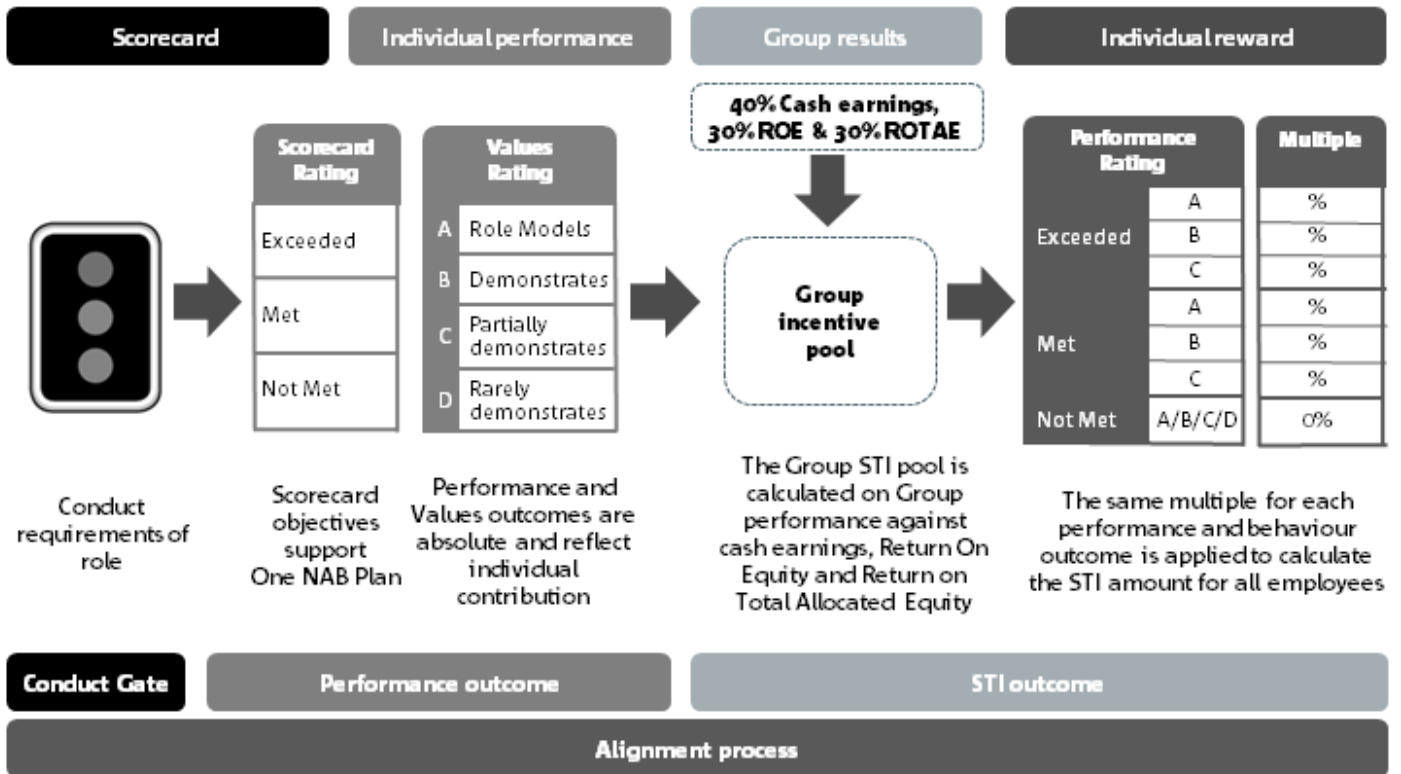
Report of the Directors

Remuneration report (continued)

2016 short-term incentive

The STI plan rewards senior executives for both individual and business performance. The following diagram shows an overview of how the STI is determined:

Figure 4: STI overview



Report of the Directors

Remuneration report (continued)

The following outlines the approach applying to the STI to be paid to senior executives as a result of 2016 individual and business performance.

2016 short-term incentive arrangements for senior executives

Purpose	<ul style="list-style-type: none">• STI is a variable (at-risk) component of reward designed to:<ul style="list-style-type: none">• Align annual employee rewards to business performance and sustainable returns for shareholders• Instil an appropriate focus on business performance beyond the current year and allow for alignment with risk outcomes, through deferring a component of the STI reward• Appropriately capture the business risks related to achievement of business outcomes and to reflect these in variable rewards.
STI pool measures <i>Impact of Group performance on STI rewards</i>	<ul style="list-style-type: none">• The financial performance of the Group for the purposes of calculating the STI pool was determined by a mix of cash earnings (40%), cash ROE (30%) and ROTAE (30%). These financial measures reasonably capture the effects of a number of material risks and together minimise actions that promote short-term results at the expense of longer term business growth and success.• At the end of the performance period, the Committee, in consultation with the Board Risk Committee, recommended the size of the STI pool to the Board, taking into account a qualitative overlay that reflected the Group's management of business risks, shareholder expectations and the quality of the financial results.• STI multiples are determined based on the Board approved STI pool and the overall performance distribution of all employees participating in the STI plan.
Senior executives' performance measures <i>Impact of individual performance on STI rewards</i>	<ul style="list-style-type: none">• Performance measures are approved by the Board.• Individual senior executive performance is determined based on achievement against target of three equally weighted measures that link the Group's financial and NAB's customer advocacy performance, and shareholder value (see Table 3):<ul style="list-style-type: none">• Cash earnings• Cash ROE• Customer advocacy, measured by Priority Segments NPS⁽¹⁾ (see Figure 2) and progress on building the net promoter system).• Senior executives are also assessed on their leadership, demonstration of NAB's values and risk management.• Senior executives who fail the conduct expectations of their role will have their STI reduced in part, or in full, depending on the severity of the issue. No reductions were made to senior executives 2016 STI rewards due to a failure to meet conduct expectations.• The Board assigned an overall performance outcome taking into account the individual performance of each senior executive and recommendations from the Group CEO.
STI reward <i>Linking performance results to senior executive remuneration outcomes</i>	<ul style="list-style-type: none">• An individual's actual STI for 2016 reflects their STI target multiplied by the relevant STI multiple for their performance outcome, capped at 1.75 times their STI target.• The total STI provided to all employees of the Group, including senior executives, is limited to the size of the funded STI pool linking overall STI rewards paid under the STI plan to Group performance.• Half of the STI reward will be provided as cash, except for acting senior executives and eligible former senior executives, who will receive 75% of the award as cash. This portion of the award can be fully or partially forfeited for any reason, by the Board, subject to law, until paid in November 2016. The minimum amount is \$0 and the maximum is the amount of the cash component shown in the column: 'Cash STI' in Table 4.• The remainder of the STI reward is deferred in the form of performance rights (subject to any required shareholder approval for the Group CEO) or shares for acting and eligible former senior executives scheduled for allocation in February 2017. Senior executives who cease employment prior to the allocation, will receive deferred cash.• The minimum amount of the deferred component of the award is \$0 if the award does not vest. The maximum amount for senior executives is the total of the amounts shown in the two columns: 'Deferred STI' in Table 4, if the deferred STI performance rights are vested in full, subject to the value of NAB shares at the time of vesting.
Deferral and vesting <i>Aligning with longer term outcomes</i>	<ul style="list-style-type: none">• All STI rewards have a deferred element designed to retain senior executives, allow for performance assurance and to align with shareholder outcomes.• Half of the deferred STI performance rights will be restricted from being exercised and subject to lapsing and service and performance conditions for approximately 14 months following the end of 2016 (Tranche 1), and the remaining half for approximately 26 months (Tranche 2). If the applicable conditions are met, the performance rights will vest and each performance right will be automatically exercised in return for a NAB ordinary share.• No dividends are received on deferred STI performance rights during the deferral periods.• For acting and eligible former senior executives the cash deferred STI or deferred STI shares will be restricted and subject to forfeiture and performance conditions for approximately 14 months following the end of 2016.
Retention of STI	<ul style="list-style-type: none">• If any deferred STI performance rights or shares are retained on cessation of employment (see Lapsing of performance rights and forfeiture of shares below), they remain subject to the performance hurdles and timetable of the award as described above.

⁽¹⁾ Priority Segments Net Promoter Score (NPS) is a simple average of the NPS scores of five priority segments: Mortgage Customers, Debt Free, Micro Business (<\$1m), Small Business (\$1m-<\$5m) and Medium Business (\$5m-<\$50m).

Report of the Directors

Remuneration report (continued)

The following outlines the LTI awards to be paid to senior executives in respect of 2016 performance.

2016 long-term incentive arrangements for senior executives

Purpose	<ul style="list-style-type: none"> LTI awards help to align management decisions with the long-term prosperity of the Group through the use of challenging performance hurdles supporting the Group's strategy and shareholder returns. 											
LTI Value <i>Market competitive</i>	<ul style="list-style-type: none"> The LTI value which will be granted in respect of 2016 is: <ul style="list-style-type: none"> 130% of fixed remuneration for the Group CEO 67% of fixed remuneration for the CRO 100% of fixed remuneration for other senior executives (excluding acting senior executives, who are not eligible for LTI awards). 											
LTI award	<ul style="list-style-type: none"> The LTI grant will be provided in two equal tranches of performance rights. The number of performance rights in each tranche will be based on the following formula: $\frac{\text{tranche value (which is half of LTI value)}}{\text{estimated fair value of each performance right}}$ The estimated fair value determined by an independent external consultant will be based on the weighted average share price (WASP) at which NAB shares are traded on the ASX in the five trading days from 5 to 9 December 2016 inclusive. The estimated fair value also takes into account the fact that dividends are not payable in relation to performance rights until the performance rights vest and are exercised. The probability of the performance hurdle being reached is also taken into consideration. As a result, given the performance hurdles for each tranche differ, the fair value of a performance right in Tranche 1 and therefore the number of performance rights in Tranche 1 may be different from the fair value and number of performance rights in Tranche 2. A reasonable estimate of the face value of the LTI award on grant date can be determined based on the number of performance rights in each tranche multiplied by the WASP. Table 11 shows the fair and face values of the LTI award granted during 2016 as at grant date. Details of the LTI award granted to senior executives in December 2015 are provided in Table 10. The fair and face values of the LTI award granted in respect of 2016 will be known in December 2016. 											
Life of LTI award <i>Drive a longer term focus</i>	<ul style="list-style-type: none"> Scheduled to be granted in December 2016 (and for the Group CEO in February 2017, subject to shareholder approval at the Annual General Meeting) in two equal tranches. The LTI performance rights have a minimum life of approximately four years from December 2016. Any unexercised LTI performance rights lapse after the end of the relevant performance period. 											
Performance hurdles <i>Focus senior executives on delivering the Group's strategy</i>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Tranche 1 (50% of grant value)</th> <th style="text-align: center;">Tranche 2 (50% of grant value)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center; vertical-align: top;"> NAB's cash ROE growth is measured against a peer group comprised of Australia and New Zealand Banking Group, Commonwealth Bank of Australia and Westpac Banking Corporation (ROE Peer Group). </td> <td style="text-align: center; vertical-align: top;"> NAB's relative TSR performance is measured against a peer group of the Top Financial Services companies (listed at www.nabgroup.com) (TSR Peer Group). </td> </tr> </tbody> </table>	Tranche 1 (50% of grant value)	Tranche 2 (50% of grant value)	NAB's cash ROE growth is measured against a peer group comprised of Australia and New Zealand Banking Group, Commonwealth Bank of Australia and Westpac Banking Corporation (ROE Peer Group).	NAB's relative TSR performance is measured against a peer group of the Top Financial Services companies (listed at www.nabgroup.com) (TSR Peer Group).	<ul style="list-style-type: none"> Ranking will be based on the movement in cash ROE for NAB and each of the members of the ROE Peer Group, measured over the 2016 to 2020 financial reporting years (ROE Measurement Period). The externally disclosed cash ROE for NAB and each member of the ROE Peer Group may be adjusted in order to enable a fair and reasonable comparison over time (any adjustments will be approved by the Board in their absolute discretion). 						
Tranche 1 (50% of grant value)	Tranche 2 (50% of grant value)											
NAB's cash ROE growth is measured against a peer group comprised of Australia and New Zealand Banking Group, Commonwealth Bank of Australia and Westpac Banking Corporation (ROE Peer Group).	NAB's relative TSR performance is measured against a peer group of the Top Financial Services companies (listed at www.nabgroup.com) (TSR Peer Group).											
Performance hurdle testing and vesting <i>Linking delivery of the Group's strategy and shareholder outcomes with senior executive remuneration</i>	<ul style="list-style-type: none"> The performance hurdles for Tranche 1 and Tranche 2 will be assessed separately by the Board and therefore both hurdles do not need to be satisfied for some of the performance rights to vest. The Tranche 1 performance hurdle is assessed over the ROE Measurement Period for NAB and each of the ROE Peer Group. The cash ROE movement will be calculated by comparing the full year 2016 cash ROE, (representing the opening period) and the average cash ROE of the performance periods over the ROE Measurement Period. Ranking will be based on the movement in cash ROE for each of the members of the ROE Peer Group over the ROE Measurement Period. The peer with the most favourable movement will be ranked first, with the rest ranked in descending order. If two peers record the same cash ROE movement, then the peer with the higher absolute cash ROE will get the higher ranking. The percentage of vesting for Tranche 1 is determined based on: <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: center;">NAB cash ROE growth ranking</th> <th style="text-align: center;">Vesting outcome</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">NAB's cash ROE growth is ranked 4th of the ROE Peer Group</td> <td style="text-align: center;">0% vesting</td> </tr> <tr> <td style="text-align: center;">NAB's cash ROE growth is ranked 3rd of the ROE Peer Group</td> <td style="text-align: center;">25% vesting</td> </tr> <tr> <td style="text-align: center;">NAB's cash ROE growth is ranked 2nd of the ROE Peer Group</td> <td style="text-align: center;">50% vesting</td> </tr> <tr> <td style="text-align: center;">NAB's cash ROE growth is ranked 1st of the ROE Peer Group</td> <td style="text-align: center;">100% vesting</td> </tr> </tbody> </table> 		NAB cash ROE growth ranking	Vesting outcome	NAB's cash ROE growth is ranked 4th of the ROE Peer Group	0% vesting	NAB's cash ROE growth is ranked 3rd of the ROE Peer Group	25% vesting	NAB's cash ROE growth is ranked 2nd of the ROE Peer Group	50% vesting	NAB's cash ROE growth is ranked 1st of the ROE Peer Group	100% vesting
NAB cash ROE growth ranking	Vesting outcome											
NAB's cash ROE growth is ranked 4th of the ROE Peer Group	0% vesting											
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NAB's cash ROE growth is ranked 2nd of the ROE Peer Group	50% vesting											
NAB's cash ROE growth is ranked 1st of the ROE Peer Group	100% vesting											

Report of the Directors

Remuneration report (continued)

2016 long-term incentive arrangements for senior executives

Performance hurdle testing and vesting (continued)

- The Tranche 2 performance hurdle is assessed over a four year performance period from 9 November 2016 to 9 November 2020 (TSR Measurement Period).
- The percentage of vesting for Tranche 2 is determined based on:

Linking delivery of the Group's strategy and shareholder outcomes with senior executive remuneration

NAB TSR result	Vesting outcome
Less than 50th percentile of TSR Peer Group	0% vesting
Between 50th percentile and 75th percentile of TSR Peer Group	50% plus 2% for every additional percentile above the 50th percentile (rounded to the nearest whole percentile)
75th percentile or greater of TSR Peer Group	100% vesting

- The Tranche 1 and Tranche 2 performance hurdles will be tested once at the end of the relevant performance periods.
- Any LTI performance right that vests will be exercised in return for one NAB ordinary share. During the restriction period, any shares provided on exercise of LTI performance rights will be forfeited if the senior executive fails to meet the Conduct Gate.
- Any LTI performance rights that do not vest following testing of Tranche 1 and Tranche 2 performance hurdles will lapse. Re-testing will not apply to awards from December 2015.
- The Board will assess cash ROE and TSR performance and the proportion of vesting in its absolute discretion, subject to compliance with the law.
- The minimum amount of the LTI award is \$0 if the award does not vest and the maximum fair value amount for each senior executive is the LTI value shown above, subject to the value of NAB shares at the time of vesting.

Retention of LTI

- If a senior executive ceases employment before 20 December 2020 and the Board has not exercised its discretion to lapse the senior executive's LTI performance rights on their cessation of employment (see Lapsing of performance rights and forfeiture of shares below), some or all of the performance rights will lapse, based on the elapsed period of service during the four year performance period.
- Any performance rights that do not lapse remain subject to the performance hurdles and timetable of the award as described above.

Details of the LTI awards granted in respect of 2015 can be found in NAB's 2015 *Remuneration report* available online at www.nab.com.au/about-us/corporate-governance.

Lapsing of performance rights and forfeiture of shares

Unvested deferred STI performance rights and LTI performance rights will lapse if any of the following occurs:

- The senior executive resigns.
- The senior executive fails to meet the Conduct Gate.
- The Board determines that some or all of the performance rights will lapse on cessation of employment.
- The Board determines that some or all of the performance rights were allocated in error.
- The Board, in its absolute discretion and subject to compliance with the law, determines that some or all of the performance rights will lapse.

On cessation of employment, unvested performance rights that are not lapsed, will be retained under the relevant performance conditions and restrictions.

These rules also apply to deferred STI shares which will be forfeited instead of being lapsed.

Malus

The Board has absolute discretion, subject to compliance with the law, to adjust any STI reward, LTI award and other performance-based components of remuneration downwards, or to zero, to protect the financial soundness of the Group. In addition, the Board may vary vesting of deferred incentives and long-term incentives if the Group's financial performance or risk management have significantly deteriorated over the relevant performance period. A qualitative overlay may be applied that reflects the Group's management of business risks, shareholder expectations and the quality of the financial results. This discretion can be applied at any time and may impact unvested equity awards and performance-based rewards yet to be awarded, whether in cash or equity. In exercising its discretion, the Board will consider whether the rewards are appropriate given later individual or business performance. Malus may apply to any employees across the Group, by Division, by role and / or individual, depending on circumstances.

Conditions for retaining securities

In the majority of cases, securities only vest as a result of achieving the relevant performance hurdle. In relation to certain events, including a takeover or scheme of arrangement, the Board has discretion to allow holders to exercise securities regardless of the normal criteria and the restriction period on which the securities would end.

Minimum shareholding policy

Senior executives are required to accumulate and retain NAB equity over a five year period from commencement in a KMP position, to the value of two times fixed remuneration for the Group CEO and an amount equal to their fixed remuneration for other senior executives. (Details of senior executive NAB shareholdings are set out in **Tables 14 and 15**.)

Report of the Directors

Remuneration report (continued)

Commencement, retention and guaranteed incentives

Commencement awards for senior executives are only entered into with the recommendation of the Committee and approval of the Board. These enable buy-out of unvested equity from previous employment. The amount, timing and performance hurdles relevant to any such awards are based on satisfactory evidence. The awards are primarily provided in the form of deferred shares or performance rights, subject to performance hurdles, restrictions and certain forfeiture conditions, including forfeiture on resignation, unique to each offer.

Ms Murphy was compensated for deferred employment incentives which were forfeited on cessation of her previous employment. Ms Murphy received an award of \$1.15 million in a combination of cash and shares. The award for Ms Murphy progressively vests until 2018 subject to certain performance and service conditions.

The Group provides retention awards for key individuals in roles where retention is critical over a medium-term timeframe (generally two to three years). These are normally provided in the form of deferred shares or performance rights, subject to certain performance and restriction periods, achievement of individual performance standards and forfeiture conditions, including forfeiture on resignation.

Mr Hagger was provided a retention award to the value of \$550,000 during 2016. The shares are restricted until 1 January 2017 and are subject to achievement of a number of key deliverables, including the finalisation of the sale of 80% of NAB Wealth's life insurance business to Nippon Life, the Wealth business transformation and service conditions. The award acknowledges the importance of Mr Hagger to these significant changes during 2016 and through early 2017.

Small and medium enterprises and specialised businesses are the largest contributors to the Group's profit and have been identified as key strategic segments for achievement of the Group's strategy in the medium term. Ms Mentis and Mr Cahill are considered critical in maintaining and growing NAB's industry leading position in these segments and were each provided retention awards to the value of \$500,000 during 2016. The shares are restricted until 31 July 2018 and subject to performance and service conditions.

The commencement and retention awards described above will be forfeited if the relevant senior executive fails to meet individual conduct requirements, resigns, retires or their employment is terminated by NAB, prior to the end of the relevant restriction period. If the senior executive's employment ceases in any other circumstances or the Board exercises its discretion, subject to compliance with the law, that the shares not be forfeited, the shares will be retained subject to the performance and restriction periods of the grants. The Board may, in its absolute discretion, subject to compliance with the law, determine that some or all of the shares be forfeited in other circumstances. (Refer to **Table 8** footnote 6 and **Table 10** for further details of the commencement and retention awards provided to senior executives in 2016.)

Guaranteed incentives or bonuses do not support the Group's performance-based culture and are not provided as part of the Group's remuneration policy.

Other share awards

Ms Carver and Mr Lawrance were each provided a restricted share award of approximately \$250,000 in respect of their appointments to acting KMP roles during 2016. These awards were provided in place of additional fixed or 'at-risk' remuneration for performing acting KMP roles. The shares are restricted until 31 July 2017 and are subject to performance and service conditions.

Report of the Directors

Remuneration report (continued)

Section 4 - Non-executive director remuneration

4.1. Remuneration policy for non-executive directors

The fees paid to non-executive directors who serve on the Board are based on advice and market data from independent external remuneration advisers. This advice takes into consideration the level of fees paid to board members of other major Australian corporations, the size and complexity of the Group's operations, the activities of the Group and the responsibilities and workload requirements of Board members. Non-executive director fees are not related to the performance of the Group. Generally, the Board annually reviews the fees paid to the Chairman and non-executive directors on the Board in line with general industry practice and fees are set to attract and retain the best talent.

Additional fees are paid, where applicable, for participation on Board committees and for serving on the boards of controlled entities and on internal advisory boards. The Chairman fee is inclusive of participation on Board committees. Since October 2005, the fees have included NAB's compulsory contributions to superannuation. Non-executive directors can elect to take part of their remuneration as additional company superannuation contributions. Non-executive directors are not paid any performance or incentive payments.

As a result of the 2015 fee review, Board fees and the Remuneration Committee member fee were increased in 2016 to remain competitive with comparable companies and to continue to attract and retain the best talent. As a result of the annual review of fees during 2016, the Board decided there would be no further increase to fees at this time. The next annual review is scheduled for August 2017.

There is no change to the maximum fee pool of \$4.5 million per annum which was approved at NAB's February 2008 Annual General Meeting.

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

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

Details of non-executive director NAB shareholdings are set out in **Table 15**.

The appointment letters for the non-executive directors set out the terms and conditions of their appointments. These terms and conditions are in conjunction with, and subject to, NAB's Constitution and the charters and policies approved by the Board from time-to-time, as set out in the NAB 2016 Corporate Governance Statement, which is available online at www.nab.com.au/about-us/corporate-governance. Non-executive directors are not eligible for any payments on cessation of appointment.

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

Table 6: Board and committee fee schedule

	Chairman (\$pa)	Non-Executive Director (\$pa)
Board ⁽¹⁾	790,000	230,000
Audit Committee	65,000	32,500
Risk Committee	60,000	30,000
Remuneration Committee ⁽²⁾	55,000	27,500
Information Technology Committee	30,000	15,000

⁽¹⁾ The chairman fee increased from \$770,000 pa and non-executive director fee from \$220,000 pa effective 1 January 2016.

⁽²⁾ The non-executive director fee increased from \$25,000 pa effective 1 January 2016.

Report of the Directors

Remuneration report (continued)

4.2. Non-executive director remuneration outcomes

The total fees paid by NAB to non-executive members of the Board, including fees paid for their involvement on (a) the Board; (b) Board committees; and (c) Boards of controlled entities, are kept within the total pool approved by shareholders from time-to-time. The following table sets out the nature and amount of each element of remuneration of non-executive directors of NAB in relation to services they provided for 2016. No performance options or performance rights are granted to non-executive directors.

Table 7: Non-executive director statutory remuneration

Name		Short-term benefits	Post-employment benefits	Total
		Cash salary and fees fixed ⁽¹⁾	Superannuation fixed ⁽²⁾	
		\$	\$	\$
Non-executive directors				
KR Henry (Chairman) ^{(3) (4)}	2016	670,213	19,385	689,598
	2015	283,961	18,914	302,875
DH Armstrong ^{(4) (5)}	2016	316,467	35,077	351,544
	2015	271,239	36,696	307,935
PW Chronican (for part year)	2016	110,731	9,061	119,792
DT Gilbert ⁽⁴⁾	2016	297,115	19,385	316,500
	2015	301,086	18,914	320,000
PK Gupta ⁽⁶⁾	2016	623,025	19,269	642,294
	2015	540,532	17,432	557,964
AJ Loveridge (for part year) ⁽⁵⁾	2016	182,821	39,904	222,725
GC McBride	2016	223,115	19,385	242,500
	2015	216,086	18,914	235,000
DA McKay (for part year) ⁽⁷⁾	2016	296,327	33,793	330,120
JS Segal	2016	278,740	19,385	298,125
	2015	257,336	18,914	276,250
AKT Yuen	2016	284,041	5,959	290,000
	2015	277,170	6,164	283,334
Former non-executive directors				
MA Chaney (for part year) ⁽⁸⁾	2016	159,774	4,827	164,601
	2015	751,086	18,914	770,000
PJ Rizzo (for part year) ^{(4) (9)}	2016	58,463	9,133	67,596
	2015	286,485	36,140	322,625
JG Thorn (for part year)	2015	61,134	4,696	65,830
GA Tomlinson (for part year)	2015	109,504	4,696	114,200
JA Waller (for part year)	2015	354,767	16,130	370,897
Total	2016	3,500,832	234,563	3,735,395
Total	2015	3,710,386	216,524	3,926,910

⁽¹⁾ The portion of fees in connection with their roles, duties and responsibilities as a non-executive director, and includes attendance at meetings of the Board, and of Board committees and boards of controlled entities, received as cash. No non-monetary benefits were provided to the non-executive directors during 2016.

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

⁽³⁾ Dr Henry was appointed as Chairman of NAB from 17 December 2015.

⁽⁴⁾ Dr Henry, Mr Armstrong, Mr Gilbert and Mr Rizzo received additional fees for services related to the demerger and IPO of the Clydesdale Bank business from NAB.

⁽⁵⁾ Mr Armstrong and Ms Loveridge received additional fees for services related to the additional Tier 1 capital raising.

⁽⁶⁾ Mr Gupta receives fees in respect of services performed for a number of NAB Group subsidiaries and as a member of NAB Group subsidiary committees.

⁽⁷⁾ Mr McKay received fees in respect of services performed as Chairman of Bank of New Zealand, which were paid in NZD.

⁽⁸⁾ Mr Chaney retired as a director and Chairman of NAB on 17 December 2015.

⁽⁹⁾ Mr Rizzo retired as a director of NAB on 17 December 2015.

Report of the Directors

Remuneration report (continued)

Section 5 - Data disclosures

5.1. Remuneration data for senior executives

The following table has been prepared in accordance with Australian Accounting Standards and Section 300A of the *Corporations Act 2001* (Cth), using the required table headings and definitions. They show details of the nature and amount of each element of remuneration paid or awarded for services provided for the year while they were senior executives (including STI amounts in respect of performance during the year which are paid following the end of the year).

In addition to remuneration benefits below, NAB paid an insurance premium for a contract insuring all senior executives as officers. It is not possible to allocate the benefit of this premium between individuals. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the premium paid.

Table 8: Statutory remuneration

Name		Short-term benefits			Post-employment benefits		Equity-based benefits			Total ⁽⁶⁾
		Cash salary ⁽¹⁾	Cash STI ⁽²⁾	Non-monetary ⁽³⁾	Superannuation ⁽⁴⁾	Other long-term benefits ⁽⁵⁾	Shares ⁽⁶⁾	Rights ⁽⁷⁾	Termination benefits	
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Executive director										
AG Thorburn	2016	2,362,779	1,380,000	3,021	37,967	37,832	253	2,887,815	-	6,709,667
	2015	2,281,753	1,320,000	7,496	36,254	32,528	467	1,805,516	-	5,484,014
Other senior executives										
AJ Cahill	2016	1,028,323	600,000	18,947	21,246	12,710	26,205	882,560	-	2,589,991
	2015	1,007,501	600,000	18,938	20,096	8,029	-	483,032	-	2,137,596
CA Carver (for part year)	2016	118,959	133,325	-	1,760	581	260,796	-	-	515,421
AD Gall	2016	1,204,456	432,000	243,026	31,849	17,558	-	669,414	-	2,598,303
	2015	1,179,902	300,000	352	28,941	14,024	-	393,867	-	1,917,086
AP Hagger	2016	1,043,257	660,000	65,367	21,072	17,558	818,731	1,456,083	-	4,082,068
	2015	1,084,959	660,000	64,504	20,270	12,855	63,640	1,083,296	-	2,989,524
AJ Healy	2016	894,030	486,777	11,224	67,686	9,149	935	908,721	-	2,378,522
	2015	823,717	452,180	11,125	62,656	6,079	954	575,205	-	1,931,916
MR Lawrance (for part year)	2016	45,500	36,870	7	1,402	672	37,692	7,140	-	129,283
GA Lennon (for part year)	2016	502,412	274,809	3,045	12,508	7,241	99,752	254,128	-	1,153,895
A Mentis	2016	1,108,671	600,000	40,359	21,246	19,308	26,205	868,285	-	2,684,074
	2015	976,073	500,000	-	20,096	12,975	-	496,790	-	2,005,934
LN Murphy (for part year)	2016	419,916	650,000	179,718	16,603	1,934	421,832	114,466	-	1,804,469
Former senior executives										
CM Drummond (for part year) ⁽⁹⁾	2016	598,239	-	2,495	7,729	3,990	71,776	(784,609)	-	(100,380)
	2015	1,260,036	780,000	4,681	20,340	6,577	1,284,422	750,054	-	4,106,110
MJ Healey (for part year) ⁽¹⁰⁾	2016	674,401	704,008	5,661	18,582	11,397	-	845,034	631,801	2,890,884
	2015	797,890	425,000	6,013	20,044	11,029	-	818,865	-	2,078,841
RA Melrose (for part year)	2016	32,790	21,069	486	1,839	449	13,821	5,274	-	75,728
RM Roberts (for part year) ⁽¹⁰⁾	2016	796,646	828,244	11,409	18,321	27,726	218	551,692	1,353,187	3,587,443
	2015	987,567	500,000	-	20,096	33,180	419	387,403	-	1,928,665
GR Slater (for part year) ⁽¹⁰⁾	2016	897,729	819,962	5,639	18,147	15,292	-	1,165,925	1,077,395	4,000,089
	2015	1,076,426	550,000	5,986	20,270	18,075	-	1,092,732	-	2,763,489
Total senior executives	2016	11,728,108	7,627,064	590,404	297,957	183,397	1,778,216	9,831,928	3,062,383	35,099,457
Total senior executives	2015	11,475,824	6,087,180	119,095	269,063	155,351	1,349,902	7,886,760	-	27,343,175

⁽¹⁾ Includes cash salary, cash allowances and short-term compensated absences, such as annual leave entitlements accrued but not taken during the year.

⁽²⁾ The cash component of the STI received in respect of 2016 is scheduled to be paid on 16 November 2016 in Australia and 1 December 2016 in NZ. The amount reflects 50% of the STI to be provided to eligible current senior executives (except Ms Carver and Mr Lawrance) and the Group CEO. The amount reflects 75% of the STI to be provided to Ms Carver, Mr Lawrance and eligible former senior executives. The amount shown for Ms Healey, Mrs Roberts and Mr Slater includes cash deferred STI (expected to be paid in November 2017) in respect of 2016, which remains subject to the relevant performance hurdles and restriction periods. Under AASB 119 "Employee benefits", the value of the retained cash deferred STI has been fully accounted for on cessation. The amount shown for Ms Murphy includes a portion of her commencement award to the value of \$300,000 paid in cash on 23 March 2016. The cash component of the STI received in respect of 2015 was paid in full during 2016 for all senior executives as previously disclosed, with no adjustment.

⁽³⁾ Includes any motor vehicle benefits, parking, relocation costs and other benefits. For international assignees this may include the provision of health fund benefits and personal tax advice. Any related fringe benefits tax is included. The 2015 comparative amount has been adjusted for Mr Hagger to reflect prior year benefits.

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

⁽⁵⁾ Includes long service leave entitlements accrued but not taken during the year. The long service leave entitlements are recognised as accruing on an annual basis subject to an actuarial calculation.

⁽⁶⁾ The amount included in remuneration each year for share awards is the grant date fair value, amortised on a straight line basis over the vesting period. Refer to the Table of key terms for an explanation of the fair value basis used to determine equity-based benefits. Amounts shown for 2016 include portions of shares allocated under employee programs as follows:

a) General Employee Offer shares granted in December 2012, 2013, 2014, March 2016 and to be granted in December 2016, to eligible senior executives at the relevant offer time. The shares vest after a three-year restriction period (with forfeiture conditions, including on resignation in NZ).

b) Deferred STI shares granted in March 2016 in respect of performance in 2015 and restricted until November 2016, and to be granted in February 2017 in respect of performance in 2016 and restricted until November 2017, subject to performance and service conditions.

c) Commencement shares allocated to Mr Drummond in November 2013 with 50% vested in October 2014 and 50% vested in October 2015, subject to performance and service hurdles.

Report of the Directors

Remuneration report (continued)

- d) Retention shares granted to Mr Hagger in September 2015 and May 2016. The shares are restricted for approximately 8 months and subject to achievement of key project deliverables and service conditions. The September 2015 grant vested in May 2016.
- e) Customer Advocacy Incentive shares granted to Mr Lawrance, Mr Lennon and Mr Melrose in March 2016 for performance in prior roles. The shares are restricted until December 2017 and are subject to achievement of 2017 NPS targets and service conditions.
- f) Commencement shares allocated to Ms Carver in March 2016 with 39% scheduled to vest in January 2017 and 32% scheduled to vest in January 2018, subject to performance and service hurdles. The remaining 29% vested in July 2016 and is excluded as it was expensed prior to Ms Carver becoming a senior executive.
- g) Commencement shares allocated to Ms Murphy in May 2016 with 35% vested in September 2016, 32.5% scheduled to vest in September 2017 and 32.5% scheduled to vest in September 2018, subject to performance and service hurdles.
- h) Retention shares granted in August 2016 to Mr Cahill and Ms Mentis are restricted for approximately 24 months. The shares are subject to performance and service conditions.
- i) Restricted share awards granted in August 2016 to Ms Carver and to be granted to Mr Lawrance in October 2016 are restricted for approximately 12 months. The shares are subject to performance and service conditions.
- ⁽⁷⁾ The amount included in remuneration each year for performance rights is the grant date fair value, amortised on a straight line basis over the expected vesting period. Refer to the Table of key terms for an explanation of fair value basis used to determine equity-based remuneration. Amounts shown for 2016 include portions of performance rights allocated under employee programs, as shown below:
- a) Deferred STI performance rights granted in February 2014, February 2015 and March 2016 and to be granted in February 2017. The performance rights are granted with half of each grant restricted for approximately 14 months after the end of the performance year and the remaining half for approximately 26 months after the end of the performance year.
- b) LTI performance rights granted in December 2012, December 2013, December 2014 (and for the Group CEO after the AGM in February 2015), December 2015 (and for the Group CEO after the AGM in March 2016) and December 2016 (and for the Group CEO after the AGM in February 2017) under the Group's LTI program. The amount includes a portion of the allocation in line with AASB 2 "Share based payment" (AASB 2).
- c) Retention performance rights granted to Mr Slater in May 2013 on his appointment to the Group Executive, Personal Banking role. The performance rights are restricted for 4 years after the date of grant.
- ⁽⁸⁾ The percentage of 2016 total remuneration related to performance-based remuneration was: Mr Thorburn 64%, Mr Cahill 58%, Ms Carver 76%, Mr Gall 42%, Mr Hagger 72%, Mr Healy 59%, Mr Lawrance 63%, Mr Lennon 54%, Ms Mentis 56%, Ms Murphy 66%, Mr Drummond 12%, Ms Healey 54%, Mr Melrose 53%, Mrs Roberts 38% and Mr Slater 50%. Performance-based remuneration shown for Mr Drummond excludes the expense reversed due to lapsing of unvested awards on separation.
- ⁽⁹⁾ A number of unvested awards were fully lapsed and the associated expense reversed on Mr Drummond's resignation consistent with the terms and conditions of the relevant awards.
- ⁽¹⁰⁾ Ms Healey, Mrs Roberts and Mr Slater ceased as KMP on 31 July 2016. They ceased employment with the Group on 30 September 2016. On cessation of employment, they each received a retrenchment payment under the NAB Enterprise Agreement and retained equity in accordance with the relevant terms and conditions of each grant which remain subject to the relevant performance hurdles and restriction periods. Under AASB 2, the value of retained equity including performance awards (deferred STI, LTI, etc.) has been fully accounted for on cessation. On separation, certain LTI performance awards were partially lapsed, and the associated expense was reversed. Any 2016 deferred STI and all other unvested LTI and STI performance rights will be retained in accordance with the relevant terms and conditions of each grant on cessation of employment. These arrangements are in line with the Group's policy and practice in such circumstances.

Report of the Directors

Remuneration report (continued)

The following table is a non-statutory voluntary disclosure summarising the actual remuneration senior executives received (or were entitled to receive), including fixed remuneration and the value of equity that vested during 2016 while they were senior executives. Additionally, equity that has lapsed during the year without providing any value to the senior executive is shown. The equity information is different to that provided in **Table 8** which shows accounting expensed amounts that reflect a portion of expected earnings from prior, current and future years, notwithstanding that senior executives may never receive any actual value. The data in **Table 8** is presented in accordance with statutory requirements. The below information is provided to show a clearer representation of actual remuneration received by senior executives for the current year while they were senior executives. All values are shown in Australian dollars.

Table 9: Remuneration outcomes

Name	Fixed remuneration⁽¹⁾ \$	Cash STI⁽²⁾ \$	Deferred STI vested during year⁽³⁾ \$	Equity related amounts during year⁽⁴⁾ \$	Termination benefits \$	Remuneration actually earned during year⁽⁵⁾ \$	Equity lapsed during year⁽⁶⁾ \$
Executive director							
AG Thorburn	2,441,599	1,380,000	238,022	1,006	-	4,060,627	-
Other senior executives							
AJ Cahill	1,081,226	600,000	152,115	-	-	1,833,341	-
CA Carver (for part year)	121,300	133,325	-	-	-	254,625	-
AD Gall	1,496,889	432,000	173,960	-	-	2,102,849	-
AP Hagger	1,147,254	660,000	304,817	511,624	-	2,623,695	-
AJ Healy	982,089	486,777	161,613	1,006	-	1,631,485	-
MR Lawrance (for part year)	47,581	36,870	-	-	-	84,451	-
GA Lennon (for part year)	525,206	274,809	-	9,725	-	809,740	-
A Mentis	1,189,584	600,000	226,199	-	-	2,015,783	-
LN Murphy (for part year)	618,171	650,000	-	335,031	-	1,603,202	-
Former senior executives							
CM Drummond (for part year)	612,453	-	126,207	2,009,658	-	2,748,318	(7,132,387)
MJ Healey (for part year) ⁽⁷⁾	710,041	704,008	243,215	-	631,801	2,289,065	(3,299,585)
RA Melrose (for part year)	35,564	21,069	-	-	-	56,633	-
RM Roberts (for part year) ⁽⁷⁾	854,102	828,244	84,615	1,006	1,353,187	3,121,154	(2,513,595)
GR Slater (for part year) ⁽⁷⁾	936,807	819,962	304,817	-	1,077,395	3,138,981	(4,127,408)

⁽¹⁾ The total amount received by the senior executive during the year while in a senior executive role including cash salary, cash value of non-monetary benefits such as motor vehicles and parking, superannuation and annual leave and long service leave entitlements. This definition is consistent with Table 8.

⁽²⁾ The cash component of the STI received by the eligible current senior executives in respect of 2016. The remaining portion of the STI for 2016 is deferred as disclosed in Table 4.

⁽³⁾ Deferred STI amounts from the 2013 Tranche 2 and 2014 Tranche 1 STI program fully vested in December 2015. The value is calculated using the closing share price of NAB shares on the vesting date.

⁽⁴⁾ Equity related amounts provided to senior executives during 2016 while in a senior executive role. This includes equity-based programs from prior years (other than the deferred STI equity referred to in (3)) that have vested and/or been exercised during 2016. The value was calculated using the closing share price of NAB shares on the vesting date for shares and performance rights. Dividends received by senior executives during 2016 for any unvested share awards are also included. The amount is calculated for the 2015 final dividend of 99 cents (record date of 9 November 2015) and the 2016 interim dividend of 99 cents (record date of 18 May 2016). Both dividends were fully franked.

⁽⁵⁾ Total value of remuneration received during 2016 while in a senior executive role. This is the total of the previous columns.

⁽⁶⁾ A number of awards were fully or partially lapsed on cessation of employment consistent with the terms and conditions of the awards.

⁽⁷⁾ Ms Healey, Mrs Roberts and Mr Slater ceased as KMP on 31 July 2016. They ceased employment with the Group on 30 September 2016. On cessation of employment, they each received a retrenchment payment under the NAB Enterprise Agreement. Any 2016 deferred STI and all other unvested LTI and STI performance rights will be retained in accordance with the relevant terms and conditions of each grant on cessation of employment. These arrangements are in line with the Group's policy and practice in such circumstances.

Report of the Directors

Remuneration report (continued)

5.2. Value of shares and performance rights

Table 10 shows the value of shares and performance rights issued to each senior executive as part of their remuneration that were granted, lapsed or vested during the year to 30 September 2016. No shares or performance rights were granted to non-executive directors.

The value of shares and performance rights is the fair value at grant date multiplied by the total number of shares or performance rights, and therefore represents the full value to be amortised over the vesting period, which is generally greater than one year. No amounts were paid per ordinary share by senior executives for any performance rights that were vested and exercised during 2016. The number of shares provided on the exercise of performance rights is on a one to one basis. No amounts are unpaid on any shares provided on the exercise of performance rights. There have been no changes to the terms and conditions of these awards, or any other awards, since the grant dates.

For awards allocated for the year to 30 September 2016, the maximum number of shares or performance rights that may vest (if no portion is forfeited or lapsed) is shown for each senior executive. The maximum value of the equity awards is the number of shares or performance rights subject to NAB's share price at the time of vesting. The minimum number of shares or performance rights and the value of these equity awards is zero if the equity is fully lapsed.

Table 10: Value of shares and performance rights

Name		Granted ⁽¹⁾	Grant date	Lapsed ⁽²⁾	Vested ⁽³⁾	Granted	Lapsed	Vested and
		No.		No.	No.	\$	\$	Exercised
Executive director								
AG Thorburn	General employee shares	36	12/12/2012	-	36	-	-	877
	Deferred STI rights	5,990	19/02/2014	-	5,990	-	-	184,252
	Deferred STI rights	2,096	18/02/2015	-	2,096	-	-	64,976
	LTI rights	297,134	9/03/2016	-	-	2,859,983	-	-
	Deferred STI rights	53,004	9/03/2016	-	-	1,319,975	-	-
Other senior executives								
AJ Cahill	Deferred STI rights	3,292	19/02/2014	-	3,292	-	-	101,262
	Deferred STI rights	1,888	18/02/2015	-	1,888	-	-	58,528
	LTI rights	103,895	9/12/2015	-	-	1,000,014	-	-
	Deferred STI rights	24,094	9/03/2016	-	-	600,021	-	-
	Retention shares	18,383	24/08/2016	-	-	500,018	-	-
CA Carver	Commencement shares	81,926	15/03/2016	-	24,155	2,035,042	-	600,010
	Restricted Shares	9,192	24/08/2016	-	-	250,022	-	-
AD Gall	Deferred STI rights	3,155	19/02/2014	-	3,155	-	-	97,048
	Deferred STI rights	2,783	18/02/2015	-	2,783	-	-	86,273
	LTI rights	83,116	9/12/2015	-	-	800,010	-	-
	Deferred STI rights	12,047	9/03/2016	-	-	300,011	-	-
AP Hagger	Deferred STI rights	6,511	19/02/2014	-	6,511	-	-	200,278
	Deferred STI rights	3,871	18/02/2015	-	3,871	-	-	120,001
	Retention shares	17,806	2/09/2015	-	17,806	-	-	550,027
	LTI rights	114,284	9/12/2015	-	-	1,100,010	-	-
	Deferred STI rights	26,504	9/03/2016	-	-	660,037	-	-
	Retention shares	20,022	11/05/2016	-	-	550,004	-	-
AJ Healy	General employee shares	36	12/12/2012	-	36	-	-	877
	Deferred STI rights	2,825	19/02/2014	-	2,825	-	-	86,897
	Deferred STI rights	2,694	18/02/2015	-	2,694	-	-	83,514
	LTI rights	92,724	9/12/2015	-	-	892,489	-	-
	General employee shares	40	2/03/2016	-	-	994	-	-
	Deferred STI rights	18,262	9/03/2016	-	-	454,785	-	-
MR Lawrance	Deferred STI rights	1,975	19/02/2014	-	1,975	-	-	60,751
	Deferred STI rights	1,699	18/02/2015	-	1,699	-	-	52,669
	Retention shares	1,554	12/05/2015	-	1,554	-	-	42,688
	General employee shares	40	2/03/2016	-	-	994	-	-
	Deferred STI shares	6,200	9/03/2016	-	-	154,008	-	-
	Customer Advocacy Incentive shares	6,039	15/03/2016	-	-	150,009	-	-
GA Lennon	Deferred STI rights	3,766	19/02/2014	-	3,766	-	-	115,842
	Deferred STI rights	2,768	18/02/2015	-	2,768	-	-	85,808
	General employee shares	40	2/03/2016	-	-	994	-	-
	Deferred STI shares	5,757	9/03/2016	-	-	143,004	-	-
	Customer Advocacy Incentive shares	4,026	15/03/2016	-	-	100,006	-	-
A Mentis	Deferred STI rights	4,801	19/02/2014	-	4,801	-	-	147,679
	Deferred STI rights	2,904	18/02/2015	-	2,904	-	-	90,024
	LTI rights	103,895	9/12/2015	-	-	1,000,014	-	-
	Deferred STI rights	20,078	9/03/2016	-	-	500,009	-	-
	Retention shares	18,383	24/08/2016	-	-	500,018	-	-
LN Murphy	Commencement shares	30,944	11/05/2016	-	10,922	850,032	-	300,027

Report of the Directors

Remuneration report (continued)

Name		Granted ⁽¹⁾	Grant date	Lapsed ⁽²⁾	Vested ⁽³⁾	Granted	Lapsed	Vested and Exercised
		No.		No.	No.	\$	\$	\$
Former senior executives								
CM Drummond	Commencement shares	61,950	1/11/2013	-	61,950	-	-	2,250,024
	LTI rights	85,644	10/12/2014	(85,644)	-	-	(1,200,023)	-
	Deferred STI rights	8,986	18/02/2015	(4,625)	4,361	-	(135,189)	135,191
	LTI rights	135,062	9/12/2015	(135,062)	-	1,300,003	(1,300,003)	-
	Deferred STI rights	31,322	9/03/2016	(31,322)	-	780,022	(780,022)	-
MJ Healey	LTI Rights	46,155	12/12/2012	(1,923)	-	-	(19,124)	-
	LTI Rights	46,966	11/12/2013	(13,698)	-	-	(210,725)	-
	Deferred STI rights	5,534	19/02/2014	-	5,534	-	-	170,226
	LTI Rights	60,665	10/12/2014	(32,859)	-	-	(460,412)	-
	Deferred STI rights	2,742	18/02/2015	-	2,742	-	-	85,002
	LTI Rights	88,311	9/12/2015	(69,912)	-	850,014	(672,918)	-
	Deferred STI rights	17,067	9/03/2016	-	-	425,025	-	-
RA Melrose	Deferred STI rights	648	19/02/2014	-	648	-	-	19,932
	Deferred STI rights	743	18/02/2015	-	743	-	-	23,033
	General employee shares	40	2/03/2016	-	-	994	-	-
	Deferred STI shares	2,062	9/03/2016	-	-	51,220	-	-
	Customer Advocacy Incentive shares	6,039	15/03/2016	-	-	150,009	-	-
RM Roberts	General employee shares	36	12/12/2012	-	36	-	-	877
	LTI rights	11,570	12/12/2012	(481)	-	-	(4,783)	-
	LTI rights	7,758	11/12/2013	(2,262)	-	-	(34,798)	-
	Deferred STI rights	1,720	19/02/2014	-	1,720	-	-	52,907
	LTI rights	9,595	10/12/2014	(5,197)	-	-	(72,819)	-
	Deferred STI rights	1,164	18/02/2015	-	1,164	-	-	36,084
	LTI rights	103,895	9/12/2015	(82,250)	-	1,000,014	(791,676)	-
	Deferred STI rights	20,078	9/03/2016	-	-	500,009	-	-
GR Slater	LTI Rights	68,376	12/12/2012	(2,848)	-	-	(28,323)	-
	LTI Rights	55,255	11/12/2013	(16,115)	-	-	(247,907)	-
	Deferred STI rights	6,511	19/02/2014	-	6,511	-	-	200,278
	LTI Rights	71,370	10/12/2014	(38,658)	-	-	(541,667)	-
	Deferred STI rights	3,871	18/02/2015	-	3,871	-	-	120,001
	LTI rights	114,284	9/12/2015	(90,474)	-	1,100,010	(870,833)	-
Deferred STI rights	22,087	9/03/2016	-	-	550,040	-	-	

⁽¹⁾ The following securities have been granted during 2016:

- a) General Employee Share Offer granted to Mr Healy, Mr Lawrance, Mr Lennon and Mr Melrose in March 2016.
- b) LTI performance rights allocations in December 2015 and March 2016 for Mr Thorburn (in respect of 2015). The total fair value of the award is disclosed in the table above. The fair value and underlying assumptions for each LTI tranche are shown in Table 11 and Table 12. The face value of the LTI award was \$29.75 based on the weighted average share price at which NAB shares were traded on the ASX in the five trading days from 30 November to 4 December 2015 inclusive.
- c) Deferred STI performance rights and shares allocations in March 2016 (in respect of 2015).
- d) Customer Advocacy Incentive shares allocated to Mr Lawrance, Mr Lennon and Mr Melrose in March 2016.
- e) Commencement shares allocated to Ms Carver in March 2016 and Ms Murphy in May 2016.
- f) Retention shares allocated to Mr Hagger in May 2016, and Mr Cahill and Ms Mentis in August 2016.
- g) Restricted shares allocated to Ms Carver in August 2016.

⁽²⁾ The following securities have lapsed during 2016:

- a) A number of awards were fully forfeited on Mr Drummond's resignation consistent with the terms and conditions of the awards: 2014 and 2015 LTI performance rights granted in December 2014 and December 2015 respectively; and 2015 and 2016 STI deferral rights granted in February 2015 and March 2016 respectively.
- b) A number of awards were partially forfeited on cessation of employment for Ms Healey, Mrs Roberts and Mr Slater consistent with the terms and conditions of the awards: 2012, 2013, 2014 and 2015 LTI performance rights granted in December 2012, December 2013, December 2014 and December 2015 respectively.

⁽³⁾ The following securities have vested during 2016:

- a) Retention shares allocated to Mr Lawrance in May 2015 fully vested in November 2015.
- b) Tranche 2 Commencement Award shares granted to Mr Drummond in November 2013, fully vested in October 2015.
- c) General Employee Share Offer granted to Mr Thorburn, Mr Healy and Mrs Roberts in December 2012, fully vested in December 2015.
- d) 2013 Tranche 2 deferred STI performance rights allocated in February 2014, fully vested in December 2015.
- e) 2014 Tranche 1 deferred STI performance rights allocated in February 2015, fully vested in December 2015.
- f) Retention shares allocated to Mr Hagger in September 2015 fully vested in May 2016.
- g) Tranche 1 Commencement Award shares granted to Ms Carver in March 2016, fully vested in July 2016.
- h) Tranche 1 Commencement Award shares granted to Ms Murphy in May 2016, fully vested in September 2016.

Report of the Directors

Remuneration report (continued)

Fair value basis used to determine equity remuneration

The grant date fair value of shares and performance rights in **Tables 8** and **10** is calculated in accordance with AASB 2, amortised on a straight line basis over the vesting period and included in each senior executive's remuneration for disclosure purposes. The fair value per share and performance right (at grant) are set out below for grants provided to senior executives during 2016. No performance options have been granted during the year. Shares and performance rights granted during 2016 have a zero exercise price.

Table 11: Fair value of securities granted to senior executives

Type of allocation	Grant date	Shares		Performance rights			
		Fair value \$	Restriction period end	Face value \$	Fair value \$	Exercise period From	Exercise period To ⁽¹⁾
Long-Term Incentive	9 December 2015			29.75	11.63	21 December 2019	15 March 2020
Long-Term Incentive	9 December 2015			29.75	8.21	21 December 2019	15 March 2020
Deferred Short-Term Incentive	9 March 2016			28.27	25.66	18 November 2016	18 February 2017
Deferred Short-Term Incentive	9 March 2016			28.27	24.19	18 November 2017	18 February 2018
Deferred Short-Term Incentive	9 March 2016	24.84	18 November 2016				
General Employee Share Offer	2 March 2016	24.84	2 March 2019				
Long-Term Incentive ⁽²⁾	9 March 2016			29.75	11.63	21 December 2019	15 March 2020
Long-Term Incentive ⁽²⁾	9 March 2016			29.75	8.21	21 December 2019	15 March 2020
Customer Advocacy Incentive ⁽³⁾	15 March 2016	24.84	20 December 2017				
Commencement ⁽⁴⁾	15 March 2016	24.84	4 July 2016				
Commencement ⁽⁴⁾	15 March 2016	24.84	4 January 2017				
Commencement ⁽⁴⁾	15 March 2016	24.84	4 January 2018				
Commencement ⁽⁴⁾	11 May 2016	27.47	30 September 2016				
Commencement ⁽⁴⁾	11 May 2016	27.47	30 September 2017				
Commencement ⁽⁴⁾	11 May 2016	27.47	30 September 2018				
Retention ⁽⁵⁾	11 May 2016	27.47	1 January 2017				
Retention/Restricted shares ⁽⁶⁾	24 August 2016	27.20	31 July 2017				
Retention/Restricted shares ⁽⁶⁾	24 August 2016	27.20	31 July 2018				

⁽¹⁾ The end of the exercise period for each performance rights allocation is also the expiry date.

⁽²⁾ LTI allocation (in respect of 2015) for the Group CEO as approved by shareholders at the December 2015 AGM.

⁽³⁾ Mr Lawrance, Mr Lennon and Mr Melrose received shares under the Customer Advocacy Incentive award. Details of the award are provided in Table 8 footnote 6.

⁽⁴⁾ Ms Carver and Ms Murphy received commencement awards upon commencing employment with NAB. Details of the awards are provided in Table 8 footnote 6.

⁽⁵⁾ Retention shares were provided to Mr Hagger. Details of the award is provided in Table 8 footnote 6.

⁽⁶⁾ Retention/Restricted shares were provided to Mr Cahill, Ms Carver and Ms Mentis. Details of the awards are provided in Table 8 footnote 6.

The following table shows the assumptions that have been used for the above STI and LTI grants. The Table of key terms provides more information on the fair value approach.

Table 12: Fair value assumptions

Award type	Grant date	Face value (WASP) \$	Fair value \$	Performance period end	Dividend yield %	Volatility %	Risk free rate %
Deferred STI - performance rights	9 March 2016	28.27	25.66	18 November 2016	5.9	N/A	N/A
Deferred STI - performance rights	9 March 2016	28.27	24.19	18 November 2017	5.9	N/A	N/A
LTI - performance rights	9 December 2015 and 9 March 2016 ⁽¹⁾	29.75	11.63	10 November 2019	5.9	18	2.3
LTI - performance rights	9 December 2015 and 9 March 2016 ⁽¹⁾	29.75	8.21	10 November 2019	5.9	18	2.3

⁽¹⁾ LTI allocation (in respect of 2015) for the Group CEO as approved by shareholders at the December 2015 AGM.

Report of the Directors

Remuneration report (continued)

5.3. Senior executive contractual arrangements

All senior executives are employed on contracts with no fixed term. The following table shows the position and contract terms for all senior executives.

Table 13: Contractual arrangements

Name	Position	Term of employment agreement	Termination arrangements ⁽¹⁾		
			Notice period (weeks)		Termination payment ⁽²⁾
			Senior executive	Company	\$
Executive director					
AG Thorburn	Group Chief Executive Officer	No fixed term	26	26	1,045,455
Other senior executives					
AJ Cahill	Chief Operating Officer	No fixed term	4	26	545,455
CA Carver	Acting Chief Customer Officer - Corporate and Institutional Banking	No fixed term	1	12	144,755
AD Gall	Chief Risk Officer	No fixed term	12	26	545,455
AP Hagger	Chief Customer Officer - Consumer Banking & Wealth Management	No fixed term	4	26	545,455
AJ Healy	Chief Executive Officer Bank of New Zealand	No fixed term	13	13	249,357
MR Lawrance	Acting Chief Technology and Operations Officer	No fixed term	4	12	120,629
GA Lennon	Chief Financial Officer	No fixed term	4	26	454,545
A Mentis	Chief Customer Officer - Business & Private Banking	No fixed term	4	26	545,455
LN Murphy	Chief People Officer	No fixed term	1	26	318,182
Former senior executives					
CM Drummond ⁽³⁾	Group Executive, Finance and Strategy	No fixed term	2	26	n/a
MJ Healey ⁽⁴⁾	Group Executive, Governance and Reputation	No fixed term	4	26	n/a
RA Melrose	Acting Chief Technology & Operations Officer	No fixed term	4	26	n/a
RM Roberts ⁽⁴⁾	Group Executive, Enterprise Services and Transformation	No fixed term	12	26	n/a
GR Slater ⁽⁴⁾	Group Executive, Personal Banking	No fixed term	4	52	n/a

⁽¹⁾ Employment may be terminated by either the senior executive or NAB giving the applicable notice. Notice periods have been reduced over time to align with the NAB Enterprise Agreement and legislative requirements as new or revised contracts have been agreed.

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

⁽³⁾ Mr Drummond ceased employment with the Group on 15 March 2016. He did not receive a termination payment on cessation of employment. On cessation of employment, all unvested performance rights were fully forfeited in accordance with the relevant terms and conditions of each grant. These arrangements are in line with the Group's policy and practice in such circumstances.

⁽⁴⁾ Ms Healey, Mrs Roberts and Mr Slater ceased as KMP on 31 July 2016 and ceased employment with the Group on 30 September 2016. On cessation of employment, they received a retrenchment payment under the NAB Enterprise Agreement. Shares and performance rights were retained in accordance with the relevant performance hurdles and restriction periods of each grant. These arrangements are in line with the Group's policy and practice in such circumstances.

Report of the Directors

Remuneration report (continued)

5.4. Equity instrument holdings of key management personnel and related parties

The following tables detail equity holdings for KMP for the year ended 30 September 2016. No performance options or performance rights are granted to non-executive directors or related parties. No performance rights held by KMP were vested but not exercisable at 30 September 2016. No performance options are currently held by KMP.

Table 14: Performance rights holdings

Name	Balance at beginning of year⁽¹⁾ No.	Granted during year as remuneration No.	Exercised during year No.	Lapsed or expired during year No.	Balance at end of year No.	Vested during year No.	Vested and exercisable at end of year No.
Executive director							
AG Thorburn	337,906	350,138	(8,086)	-	679,958	8,086	-
Other senior executives							
AJ Cahill	42,159	127,989	(5,180)	-	164,968	5,180	-
AD Gall	49,761	95,163	(5,938)	-	138,986	5,938	-
AP Hagger	209,489	140,788	(10,382)	-	339,895	10,382	-
AJ Healy	88,076	110,986	(5,519)	-	193,543	5,519	-
MR Lawrance	36,257	-	(3,674)	-	32,583	3,674	-
GA Lennon	58,333	-	(6,534)	-	51,799	6,534	-
A Mentis	48,955	123,973	(7,705)	-	165,223	7,705	-
Former senior executives							
CM Drummond	94,630	166,384	(4,361)	(256,653)	-	4,361	-
MJ Healey	164,970	105,378	(8,276)	(118,392)	143,680	8,276	-
RA Melrose	22,094	-	(1,391)	-	20,703	1,391	-
RM Roberts	33,042	123,973	(2,884)	(90,190)	63,941	2,884	-
GR Slater	217,660	136,371	(10,382)	(148,095)	195,554	10,382	-

⁽¹⁾ Balance may include performance rights granted prior to individuals becoming KMP.

Report of the Directors

Remuneration report (continued)

Table 15: Shareholdings

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

Name	Balance at beginning of year⁽¹⁾ No.	Granted during year as remuneration No.	Received during year on exercise of performance rights No.	Other changes during year No.	Balance at end of year⁽²⁾ No.
Executive director					
AG Thorburn	97,389	-	8,086	12,515	117,990
Other senior executives					
AJ Cahill	34,583	18,383	5,180	-	58,146
CA Carver	-	91,118	-	(24,155)	66,963
AD Gall	94,588	-	5,938	(9,257)	91,269
AP Hagger	108,605	20,022	10,382	-	139,009
AJ Healy	25,330	40	5,519	-	30,889
MR Lawrance	40,066	12,279	3,674	(2,186)	53,833
GA Lennon	32,472	9,823	6,534	-	48,829
A Mentis	13,853	18,383	7,705	(4,500)	35,441
LN Murphy	-	30,944	-	-	30,944
Former senior executives					
CM Drummond	141,628	-	4,361	276	146,265
MJ Healey	133,549	-	8,276	(79,561)	62,264
RA Melrose	608	8,141	1,391	(1,391)	8,749
RM Roberts	23,672	-	2,884	(25,932)	624
GR Slater	53,987	-	10,382	(64,235)	134
Non-executive directors					
KR Henry	2,160	-	-	4,700	6,860
DH Armstrong	11,086	-	-	2,333	13,419
PW Chronican	-	-	-	30,000	30,000
DT Gilbert	20,726	-	-	-	20,726
PK Gupta	6,480	-	-	-	6,480
AJ Loveridge	-	-	-	9,000	9,000
GC McBride	2,160	-	-	1,800	3,960
DA McKay	-	-	-	2,000	2,000
JS Segal	18,345	-	-	(1,161)	17,184
AKT Yuen	10,464	-	-	-	10,464
Former non-executive directors					
MA Chaney	30,643	-	-	-	30,643
PJ Rizzo	6,290	-	-	-	6,290

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

⁽²⁾ In addition to the above shareholdings, KMP may have investments in retail products, such as managed funds, with underlying holdings in NAB shares. For former senior executives, the balance may include shares held after an individual ceases to be KMP. For former non-executive directors, the balance is at date of retirement.

Table 16: Other equity instrument holdings

Holdings and transactions involving equity instruments, other than equity-based compensation, with KMP of NAB and the Group or their related parties are set out below:

Name	Balance at beginning of year No.	Changes during year No.	Balance at end of year⁽¹⁾ No.
National Income Securities			
PW Chronican	-	982	982
CM Drummond	500	-	500
DT Gilbert	1,253	-	1,253
MJ Healey	700	-	700
JS Segal	180	-	180

⁽¹⁾ Balance may include other equity instruments held after an individual ceases to be KMP.

Report of the Directors

Remuneration report (continued)

5.5. Loans to KMP and related parties

Loans made to directors of NAB are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans to other KMP of NAB and the Group may be made on similar terms and conditions generally available to other employees of the Group. Loans to KMP of NAB and the Group may be subject to restrictions under applicable laws and regulations including the *Corporations Act 2001* (Cth).

Table 17: Aggregated loans to KMP and their related parties

NAB and the Group	Terms and conditions	Balance at beginning of year ⁽¹⁾	Interest charged	Interest not charged	Write-off	Balance at end of year ⁽¹⁾	KMP in Group during year ⁽²⁾
		\$	\$	\$	\$	\$	No.
KMP	Normal	9,618,872	555,059	-	-	20,453,142	14
	Employee	7,570,504	382,834	-	-	7,951,312	8
Other related parties ⁽³⁾	Normal	31,966,062	1,130,872	-	-	38,822,419	9
	Employee	-	-	-	-	-	-

⁽¹⁾ Balance relates to KMP who held office during the year ending 30 September 2016.

⁽²⁾ This number represents the KMPs included in the balance at the end of the year. Loans to KMP of NAB and the Group at year end may, in some instances, be an estimate of the 30 September statement balances. Where estimates have been used at the end of 2015, the balances at the beginning of 2016 reflects the actual opening balances and therefore may differ from prior year closing balance. Some balances have been restated to include additional related party loans.

⁽³⁾ Includes the KMP's related parties, which includes their close family members or any entity they or their close family members control, jointly control or significantly influence.

Table 18: Aggregate loans to KMP and their related parties above \$100,000 at any time during 2016

NAB and the Group	Terms and conditions	Balance at beginning of year ⁽¹⁾	Interest charged ⁽²⁾	Interest not charged	Write-off	Balance at end of year	KMP highest indebtedness during year ⁽³⁾
		\$	\$	\$	\$	\$	\$
Other senior executives							
AJ Cahill	Employee	2,160,226	97,981	-	-	1,479,999	
	Normal	1,448,435	81,163	-	-	1,938,443	3,683,176
AD Gall	Normal	2,665,465	212,698	-	-	6,140,733	6,188,131
AJ Healy	Normal	2,239,187	111,601	-	-	2,080,834	2,258,905
MR Lawrance	Normal	418,992	30,919	-	-	2,908,159	2,958,905
GA Lennon	Employee	-	41,307	-	-	1,206,947	
	Normal	5,078	20	-	-	6,233	1,236,371
A Mentis	Employee	3,011,731	136,535	-	-	2,893,786	3,036,870
LN Murphy	Employee	-	59	-	-	19,621	
	Normal	-	44,800	-	-	2,696,538	2,760,853
Non-executive directors							
DT Gilbert ⁽⁴⁾	Normal	31,178,462	1,016,422	-	-	35,666,278	480,000
GC McBride	Normal	1,239,350	29,311	-	-	1,182,060	1,210,178
Former senior executives							
MJ Healey	Employee	1,050,500	49,089	-	-	1,050,500	
	Normal	8,307	-	-	-	7,340	1,060,500
RA Melrose	Employee	1,334,633	57,862	-	-	1,293,932	1,340,231
RM Roberts	Employee	9,117	1	-	-	4,688	
	Normal	993,027	129,964	-	-	5,255,600	5,315,930
GR Slater	Normal	1,356,231	29,032	-	-	1,368,177	970,397

⁽¹⁾ Some balances have been restated to include additional related party loans. Balance relates to KMP who held office during the year ending 30 September 2016.

⁽²⁾ The interest charged may include the impact of interest offset facilities.

⁽³⁾ Represents aggregate highest indebtedness of the KMP during 2016. All other items in this table relate to the KMP and their related parties.

⁽⁴⁾ Includes business loans to persons and entities other than Mr Gilbert but over which Mr Gilbert has significant influence including the law firm Gilbert + Tobin. In addition to this, the Group has provided bank guarantees to Gilbert + Tobin with a total limit of \$13 million. The loans and guarantees are provided on terms equivalent to those that prevail in an arm's length transaction.

Other financial instrument transactions

During the year ended 30 September 2016, a related party of Ms Healey subscribed to 1,000 NAB Capital Notes 2. NAB Capital Notes 2 were issued by NAB, each with an issue price of \$100, and these instruments were still held as at 30 September 2016 by the relevant KMP's related party. From time to time various KMP and their related parties will hold investments in funds that are either managed, related to or controlled by the Group. All such transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions.

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

Report of the Directors

Remuneration report (continued)

Table of key terms

The following key terms and abbreviations are used in the Remuneration report. Key terms not defined here can be found in the *Glossary* of the *Financial report*.

Term Used	Description
Conduct Gate	All employees must satisfy threshold measures for compliance which reflect a range of internal and external regulatory requirements.
Deferred STI performance rights	<p>Deferred STI performance rights are restricted for at least one year and may be fully or partially lapsed if individual or business performance warrants. They are provided in respect of prior year(s) performance and are subject to service and performance conditions. The terms and conditions, including lapsing, will vary for each particular grant. Shares are issued or transferred under the National Australia Bank Staff Share Ownership Share Plan.</p> <p>The design of the share plan (and the expected outcome for senior executives) seeks to comply with ASX Corporate Governance Principles and Recommendations, and those set out in the Investment and Financial Services Association's (IFSA) 'Executive Equity Plan Guidelines', Guidance Note 12.</p>
Deferred STI shares	Deferred STI shares are NAB ordinary shares, allocated at no charge to the employee, in respect of prior year performance, which provide dividend income to the employee from allocation. The shares are held on trust for a restriction period of at least one year, during which the shares are restricted from trading and may be fully or partially forfeited if individual or business performance warrants. The shares will be forfeited if the participant fails to meet the Conduct Gate, or if they resign or are dismissed before the end of the shares' relevant restriction period. The shares may be retained on cessation of employment in other circumstances.
Executive Leadership Team (ELT)	Most senior leaders of the Group, including the Group Chief Executive Officer. They are responsible for planning, directing and controlling the activities of the Group. Current members of the ELT are listed in Table 1.
Face value	The face value of each performance right is determined by the market value of a NAB share as at the grant date, and is generally a five day weighted average share price.
Fair value basis	<p>The value of the awards provided are measured by reference to the grant date fair value of the shares and performance rights provided to employees. The expense for each tranche of shares or performance rights granted is recognised in the income statement on a straight-line basis, adjusted for forfeitures, over the period that the awards provided are received (the vesting period), with a corresponding increase in the equity-based compensation reserve.</p> <p>The grant date fair value of each share is determined by the market value of NAB shares, and is generally a five day weighted average share price. Employee share plans and performance rights are linked to internal performance, market performance and/or service conditions.</p> <p>The fair value of the shares and performance rights with market performance hurdles is determined using a simulated version of the Black-Scholes model. The key assumptions and inputs used in the valuation model are the NAB share price at the time of the grant, exercise price of the performance rights (which is nil), the expected volatility of NAB's share price, the risk-free interest rate and the expected dividend yield on NAB shares for the life of the performance rights. When estimating expected volatility, historic daily share prices are analysed to arrive at annual and cumulative historic volatility estimates (which may be adjusted for any abnormal periods or non-recurring significant events). Trends in the data are analysed to estimate volatility movements in the future for use in the numeric pricing model. The simulation takes into account both the probability of achieving market performance conditions and the potential for early exercise of vested performance rights.</p> <p>While market performance conditions are incorporated into the grant date fair values, non-market conditions are not taken into account when determining the fair value and expected time to vesting of shares and performance rights. Instead, non-market conditions are taken into account by adjusting the number of shares and performance rights included in the measurement of the expense so that the amount recognised in the income statement reflects the number of shares or performance rights that actually vest.</p>
Key management personnel (KMP)	Key executives of the Group and NAB who have the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise). This is the definition used in AASB 124 "Related Party Disclosures" and the <i>Corporations Act 2001</i> (Cth). Current and prior year KMP are listed in Table 1.
Long-term incentive (LTI)	An 'at risk' opportunity for individuals linked to the long-term performance of the Group. LTI is allocated under the Group's LTI program in the form of performance rights. The LTI program is described in Section 3.4.
LTI performance rights	An LTI performance right is a performance right granted under an LTI plan which is subject to long-term performance hurdles.
NAB's values	<p>NAB's values are key in driving the culture to deliver the Group's strategy. They are guiding principles that can inspire employees to meet the needs of customers and achieve the Group's strategy. They are:</p> <ol style="list-style-type: none"> 1. Passion for customers 2. Will to win 3. Be bold 4. Respect for people 5. Do the right thing
Net Promoter Score (NPS)	<p>NPS is a customer advocacy measure used in many industries, including financial services. NPS measures how likely a customer would be to recommend NAB to a friend or colleague. It is based on one key question: 'On a scale of 0 - 10, how likely would you be to recommend NAB to a friend or colleague?'. The overall score is calculated by subtracting the percentage of customers that answer 6 or below ('detractors') from the percentage of customers that answer 9 or 10 ('promoters'). NPS allows for continuous customer feedback providing a greater understanding of what matters to customers to improve the customer experience.</p> <p>While the segments referenced are NAB defined customer segments, the score is derived using industry provided survey data from Roy Morgan Research for Consumer customers and the Business Financial Services Monitor provided by DBM Consulting for Business customers.</p> <p>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.</p>
Performance rights	A performance right, such as an LTI performance right (as described above), is a right to acquire one NAB ordinary share, once the performance right has vested based on achievement of the related performance hurdle or at the Board's discretion. Each performance right entitles the holder to be provided with one NAB ordinary share subject to adjustment for capital actions. A performance right is issued at no charge to the employee and there is no exercise price to be paid to exercise the performance right. Performance rights may be used instead of shares due to jurisdictional reasons including awards such as deferred STI and commencement and other retention programs. The terms and conditions, including lapsing, will vary for each particular grant. Performance rights are issued by NAB under the National Australia Bank Performance Rights Plan. The design of the performance rights plan (and the expected outcome for senior executives) seeks to comply with ASX Corporate Governance Principles and Recommendations, and those set out in the Investment and Financial Services Association's (IFSA) 'Executive Equity Plan Guidelines', Guidance Note 12. The main departure from the IFSA guidelines is that performance rights issued by NAB have no exercise price. Shares will be issued on exercise of performance rights. No dividend income is provided to the employee until the end of the restriction period and the performance conditions have been met and the performance rights are exercised.
Return on Total Allocated Equity (ROTAE)	ROTAE is a function of cash earnings, combined divisional Risk Weighted Assets (and by capital adequacy for Wealth Management) and target regulatory capital ratios.
ROE Peer Group	Comprised of Australia and New Zealand Banking Group, Commonwealth Bank of Australia and Westpac Banking Corporation.
Reward	Overall remuneration, comprising fixed remuneration (TEC) and 'at risk' remuneration (STI and LTI) as defined in this table.

Report of the Directors

Remuneration report (continued)

Term Used	Description
Senior executives	Persons who are (or were) members of the Executive Leadership Team, including executive directors.
Short-term incentive (STI)	An 'at risk' opportunity for individuals to receive an annual performance-based reward. Each employee has a short-term incentive target (STI Target) which is usually described as a percentage of their fixed remuneration (e.g. 100% of TEC). The actual STI reward that an individual will receive in any particular year will reflect both business and individual performance as set out in Section 3.4 .
S&P/ASX Top 50 Index	A Standard & Poors (S&P)/ASX capitalisation index comprised of the 50 largest companies by market capitalisation in Australia. Used as a measure for the LTI performance hurdle.
Top Financial Services	The top financial services companies in the ASX200 (7 companies) by market capitalisation, excluding NAB, determined on or around the effective date of the LTI award. Used as a measure for the LTI performance hurdle.
Total Employment Compensation (TEC)	The Group's primary measure of fixed remuneration, or salary paid to employees, is called Total Employment Compensation (TEC). It includes employer and employee superannuation contributions (where applicable), but does not include STI or LTI. A portion of TEC may be taken in the form of packaged, non-monetary benefits (such as motor vehicle and parking) and associated fringe benefits tax. Senior executives are also eligible to participate in other benefits that are normally provided to executives of the Group, subject to any overriding legislation prevailing at the time including the <i>Corporations Act 2001</i> (Cth).
Total Remuneration Package (TRP)	Total Employment Compensation (as above) less employer superannuation contributions (where applicable).
TSR Peer Group	A peer group of the Top Financial Services companies listed at www.nabgroup.com .

Report of the Directors

Directors' signatures

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



Dr Kenneth R Henry
Chairman
14 November 2016



Mr Andrew G Thorburn
Group Chief Executive Officer
14 November 2016

Financial Report

Financial Report

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Financial Report

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Income statements

For the year ended 30 September	Note	Group		Company	
		2016 ⁽¹⁾	2015 ⁽¹⁾	2016	2015
		\$m	\$m	\$m	\$m
Interest income	3	27,629	28,347	26,724	26,840
Interest expense	3	(14,699)	(15,885)	(17,211)	(17,321)
Net interest income		12,930	12,462	9,513	9,519
Investment revenue ⁽²⁾		4,037	5,007	-	-
Fee income		433	589	-	-
Change in life investment contract liabilities ⁽²⁾		(2,861)	(4,221)	-	-
Movement in external unitholders' liability ⁽²⁾		(1,015)	(715)	-	-
Net insurance income		53	41	-	-
Net investment and insurance income		647	701	-	-
Gains less losses on financial instruments at fair value	4	827	1,498	1,626	1,953
Other operating income	4	3,718	3,776	4,172	3,754
Total other income		4,545	5,274	5,798	5,707
Personnel expenses	5	(4,752)	(4,529)	(3,447)	(3,214)
Occupancy-related expenses	5	(493)	(478)	(516)	(516)
General expenses	5	(3,086)	(3,182)	(8,360)	(2,524)
Total operating expenses		(8,331)	(8,189)	(12,323)	(6,254)
Charge to provide for doubtful debts	5	(813)	(733)	(702)	(604)
Profit before income tax expense		8,978	9,515	2,286	8,368
Income tax expense	6	(2,553)	(2,709)	(1,767)	(2,428)
Net profit for the year from continuing operations		6,425	6,806	519	5,940
Net (loss) after tax for the period from discontinued operations	41	(6,068)	(414)	-	-
Net profit for the year		357	6,392	519	5,940
Attributable to owners of NAB		352	6,338	519	5,940
Attributable to non-controlling interests		5	54	-	-
Basic earnings per share (cents)	36	8.8	252.7		
Diluted earnings per share (cents)	36	15.5	245.4		
Basic earnings per share (cents) from continuing operations	36	242.4	271.7		
Diluted earnings per share (cents) from continuing operations	36	232.7	263.3		

⁽¹⁾ Information is presented on a continuing operations basis including prior period restatements. Included in discontinued operations are the results of CYBG Group and NAB Wealth's life insurance business (2015: GWB, CYBG Group and NAB Wealth's life insurance business). Refer to Note 41 – Discontinued operations for further information.

⁽²⁾ Includes the impact of movements in life investment contracts to 1 July 2016, being the date on which the Successor Fund Merger occurred and the related investment assets and investment contract liabilities were deconsolidated.

Statements of comprehensive income

For the year ended 30 September	Note	Group		Company	
		2016 ⁽¹⁾	2015 ⁽¹⁾	2016	2015
		\$m	\$m	\$m	\$m
Net profit for the year from continuing operations		6,425	6,806	519	5,940
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial (losses) on defined benefit superannuation plans		-	(1)	-	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk		(113)	165	(131)	52
Revaluation of land and buildings		(1)	-	-	-
Exchange differences on translation of other contributed equity		(183)	229	-	108
Equity instruments at fair value through other comprehensive income reserve:					
Revaluation (losses) / gains		(51)	218	(52)	207
Tax on items transferred directly to / (from) equity		23	(51)	10	(20)
Total items that will not be reclassified to profit or loss		(325)	560	(173)	347
Items that will be reclassified subsequently to profit or loss					
Cash flow hedges:					
Gains / (losses) on cash flow hedging instruments		38	90	76	(37)
(Gains) / losses transferred to the income statement		(6)	(1)	(6)	72
Exchange differences on translation of foreign operations		249	64	(49)	(83)
Debt Instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		14	(28)	14	(30)
Gains from sale transferred to the income statement		(16)	(69)	(16)	(69)
Loss allowance on debt instruments at fair value through other comprehensive income		4	1	4	-
Tax on items transferred directly to / (from) equity		22	(22)	41	(10)
Total items that will be reclassified subsequently to profit or loss		305	35	64	(157)
Other comprehensive income for the year, net of income tax		(20)	595	(109)	190
Total comprehensive income for the year from continuing operations		6,405	7,401	410	6,130
Net (loss) for the year from discontinued operations	41	(6,068)	(414)	-	-
Other comprehensive income for the year from discontinued operations, net of income tax		979	760	-	-
Total comprehensive income for the year		1,316	7,747	410	6,130
Attributable to owners of NAB		1,311	7,525	410	6,130
Attributable to non-controlling interests		5	222	-	-

⁽¹⁾ Information is presented on a continuing operations basis including prior period restatements.

Balance sheets

As at 30 September	Note	Group		Company	
		2016 \$m	2015 \$m	2016 \$m	2015 \$m
Assets					
Cash and liquid assets	9	30,630	30,934	28,717	24,308
Due from other banks	9	45,236	50,595	43,359	37,698
Trading derivatives	10	43,131	78,384	42,440	79,149
Trading securities	11	45,971	42,937	41,513	38,512
Debt instruments at fair value through other comprehensive income	12	40,689	45,189	40,580	41,944
Investments relating to life insurance business ⁽¹⁾		86	89,350	-	-
Other financial assets at fair value	13	21,496	29,696	14,831	19,304
Hedging derivatives	10	6,407	11,599	5,996	11,219
Loans and advances	14	510,045	532,784	441,321	413,989
Due from customers on acceptances		12,205	19,437	12,205	19,428
Property, plant and equipment	20	1,423	1,741	520	533
Due from controlled entities		-	-	119,414	110,241
Investments in controlled entities	30	-	-	9,493	20,434
Goodwill and other intangible assets	21	5,302	7,347	2,093	1,855
Deferred tax assets	8	1,925	2,141	1,172	1,257
Other assets	22	13,076	12,918	10,681	9,832
Total assets		777,622	955,052	814,335	829,703
Liabilities					
Due to other banks	9	43,903	54,405	42,649	51,938
Trading derivatives	10	41,654	74,442	38,949	73,459
Other financial liabilities at fair value	16	33,224	30,046	5,408	6,958
Hedging derivatives	10	3,245	4,539	6,458	8,564
Deposits and other borrowings	17	459,714	489,010	416,241	391,785
Life policy liabilities ⁽¹⁾		-	76,311	-	-
Current tax liabilities	7	297	1,114	248	996
Provisions	23	1,432	3,575	1,157	917
Due to controlled entities		-	-	117,399	106,703
Bonds, notes and subordinated debt	18	127,942	130,518	123,226	119,136
Other debt issues	19	6,248	6,292	6,248	5,652
External unitholders' liability ⁽¹⁾		-	14,520	-	-
Other liabilities	24	8,648	14,767	7,800	8,378
Total liabilities		726,307	899,539	765,783	774,486
Net assets		51,315	55,513	48,552	55,217
Equity					
Contributed equity	25	34,285	34,651	32,524	34,407
Reserves	26	629	(362)	309	340
Retained profits	27	16,378	21,205	15,719	20,470
Total equity (parent entity interest)		51,292	55,494	48,552	55,217
Non-controlling interest in controlled entities		23	19	-	-
Total equity		51,315	55,513	48,552	55,217

⁽¹⁾ Balances were impacted by the Successor Fund Merger on 1 July 2016 and the sale of 80% of NAB Wealth's life insurance business. Refer to Note 41 - Discontinued operations for details.

Cash flow statements

For the year ended 30 September ⁽¹⁾	Note	Group		Company	
		2016 \$m	2015 \$m	2016 \$m	2015 \$m
Cash flows from operating activities					
Interest received		28,338	30,703	26,795	26,736
Interest paid		(15,592)	(17,008)	(17,413)	(17,709)
Dividends received		21	35	2,264	1,725
Life insurance:					
Premiums and other revenue received		9,426	11,154	-	-
Investment revenue received		1,797	2,635	-	-
Policy and other payments		(9,143)	(9,545)	-	-
Fees and commissions paid		(347)	(532)	-	-
Net trading revenue (paid) / received		(3,351)	2,384	(1,583)	919
Other operating income received		3,956	4,843	2,318	2,453
Payments to employees and suppliers:					
Personnel expenses paid		(4,962)	(4,623)	(3,243)	(2,998)
Other operating expenses paid		(5,647)	(5,487)	(3,298)	(2,617)
Goods and services tax received		66	53	51	34
Income taxes paid		(3,148)	(2,428)	(2,812)	(1,840)
Cash flows from operating activities before changes in operating assets and liabilities		1,414	12,184	3,079	6,703
Changes in operating assets and liabilities arising from cash flow movements					
Net placement of deposits with supervisory central banks that are not part of cash equivalents		681	(252)	696	(249)
Net funds received from other banks with maturity greater than three months		2,521	1,792	2,747	2,451
Net receipts from acceptance transactions		7,249	3,963	7,243	3,963
Net funds advanced to customers for loans and advances		(45,882)	(37,164)	(30,861)	(32,971)
Net acceptance from / (repayment of) deposits and other borrowings		37,920	(2,329)	28,199	5,091
Net movement in life insurance business investments		3,970	(2,173)	-	-
Net movement in other life insurance assets and liabilities		(4,450)	(111)	-	-
Net payment for treasury bills and other eligible bills held for trading and not part of cash equivalents		(464)	(15)	-	-
Net (payments for) / receipts from trading securities		(3,733)	2,513	(3,554)	2,631
Net receipts from trading derivatives		3,096	2,559	107	3,348
Net funds received for hedging derivative assets and other financial assets at fair value		8,475	2,654	7,872	1,750
Net receipts from / (payments for) hedging derivative liabilities and other financial liabilities at fair value		893	1,887	(3,737)	4,205
Net decrease / (increase) in other assets		957	(1,096)	265	(1,044)
Net increase in other liabilities		3,548	2,498	1,219	1,283
Changes in operating assets and liabilities arising from cash flow movements		14,781	(25,274)	10,196	(9,542)
Net cash provided by / (used in) operating activities	29(a)	16,195	(13,090)	13,275	(2,839)
Cash flows from investing activities					
Movement in investments - debt instruments at fair value through other comprehensive income					
Purchases		(20,077)	(25,138)	(19,959)	(23,879)
Proceeds from disposal		5,667	7,862	5,655	7,236
Proceeds on maturity		15,421	15,262	15,200	15,154
Movement in investments - other debt instruments at amortised cost					
Purchases		(131)	-	-	-
Proceeds on disposal and maturity		-	779	9	140
Movement in investments - equity investments at fair value through other comprehensive income					
Purchases		-	(36)	-	-
Proceeds on disposal and maturity		232	68	218	68
Movement in investments - other debt instruments at fair value					
Purchases		(1,876)	-	(1,876)	-
Proceeds from disposal		3,399	-	3,399	-
Purchase of controlled entities and business combinations, net of cash acquired		(2)	(33)	-	-
Proceeds from sale of controlled entities, net of cash disposed		(11,780)	158	642	-
Net movement in amounts due from controlled entities		-	-	2,841	(8,583)
Net movement in shares in controlled entities		-	-	(695)	(991)
Purchase of property, plant, equipment and software		(875)	(976)	(594)	(689)
Proceeds from sale of property, plant, equipment and software, net of costs		52	224	8	43
Net cash (used in) / provided by investing activities		(9,970)	(1,830)	4,848	(11,501)

⁽¹⁾ The cash flow statement includes net cash inflows / (outflows) from operating, investing and financing activities on discontinued operations. Discontinued operations for the 2015 comparative year reflects the loss of control of GWB which occurred on 3 August 2015. For the September 2016 full year, loss of control of CYBG occurred on 8 February 2016 and loss of control of NAB Wealth's life insurance business occurred on 30 September 2016.

Note: Cash flow statements continue on the following page.

Cash flow statements (continued)

For the year ended 30 September ⁽¹⁾	Note	Group		Company	
		2016 \$m	2015 \$m	2016 \$m	2015 \$m
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		(26,127)	(29,941)	(25,201)	(27,213)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		38,370	27,381	36,403	23,415
Proceeds from issue of ordinary shares, net of costs		-	6,246	-	6,246
Repayments of other contributed equity, net of costs		-	(1,014)	-	(1,014)
Proceeds from sale of interest in a subsidiary, net of costs		-	942	-	-
Proceeds from other debt issues, net of costs		111	1,336	667	1,336
Dividends and distributions paid (excluding dividend reinvestment plan)		(4,593)	(3,624)	(4,633)	(3,607)
Net cash provided by / (used in) financing activities		7,761	1,326	7,236	(837)
Net increase / (decrease) in cash and cash equivalents		13,986	(13,594)	25,359	(15,177)
Cash and cash equivalents at beginning of period		20,528	26,517	1,970	11,214
Effects of exchange rate changes on balance of cash held in foreign currencies		(6,554)	7,605	(2,479)	5,933
Cash and cash equivalents at end of year	29(b)	27,960	20,528	24,850	1,970

⁽¹⁾ Refer to the footnote on the previous page for further details.

Statements of changes in equity

Group	Contributed equity ⁽¹⁾ \$m	Reserves ⁽²⁾ \$m	Retained profits ⁽³⁾ \$m	Total \$m	Non-controlling interest in controlled entities \$m	Total equity \$m
Year to 30 September 2015						
Balance at 1 October 2014	28,380	(866)	20,377	47,891	17	47,908
Restated for adoption of new accounting standards	-	(587)	(465)	(1,052)	-	(1,052)
Net profit for the year from continuing operations	-	-	6,800	6,800	6	6,806
Net (loss) / profit for the year from discontinued operations	-	-	(462)	(462)	48	(414)
Other comprehensive income for the year from continuing operations	-	462	133	595	-	595
Other comprehensive income for the year from discontinued operations	-	654	(62)	592	168	760
Total comprehensive income for the year	-	1,116	6,409	7,525	222	7,747
Transactions with owners, recorded directly in equity: ⁽⁴⁾						
Contributions by and distributions to owners						
Issue of ordinary shares	1,937	-	-	1,937	-	1,937
Rights issue	5,446	-	-	5,446	-	5,446
Redemption of Trust Preferred Securities II	(1,014)	-	(8)	(1,022)	-	(1,022)
Transfer from equity-based compensation reserve	182	(182)	-	-	-	-
Treasury shares (purchased) / sold relating to life insurance business	(280)	-	-	(280)	-	(280)
Transfer from / (to) retained profits	-	37	(37)	-	-	-
Equity-based compensation	-	120	-	120	-	120
Dividends paid	-	-	(4,573)	(4,573)	(13)	(4,586)
Distributions on other equity instruments	-	-	(175)	(175)	-	(175)
Discontinued operations ⁽⁵⁾	-	-	(323)	(323)	(207)	(530)
Balance at 30 September 2015	34,651	(362)	21,205	55,494	19	55,513
Year to 30 September 2016						
Net profit for the year from continuing operations	-	-	6,420	6,420	5	6,425
Net loss for the year from discontinued operations	-	-	(6,068)	(6,068)	-	(6,068)
Other comprehensive income for the year from continuing operations	-	96	(116)	(20)	-	(20)
Other comprehensive income for the year from discontinued operations	-	955	24	979	-	979
Total comprehensive income for the year	-	1,051	260	1,311	5	1,316
Transactions with owners, recorded directly in equity: ⁽⁴⁾						
Contributions by and distributions to owners						
Issue of ordinary shares	596	-	-	596	-	596
Transfer from equity-based compensation reserve	166	(166)	-	-	-	-
Treasury shares adjustment relating to NAB Wealth's life insurance business ⁽⁶⁾	1,517	-	-	1,517	-	1,517
Transfer from / (to) retained profits	-	(91)	91	-	-	-
Equity-based compensation	-	203	-	203	-	203
Dividends paid	-	-	(5,060)	(5,060)	(5)	(5,065)
Distributions on other equity instruments	-	-	(124)	(124)	-	(124)
Capital distribution on CYBG demerger ⁽⁷⁾	(2,645)	-	-	(2,645)	-	(2,645)
Released on divestment of discontinued operations	-	(6)	6	-	-	-
Changes in ownership interests ⁽⁸⁾						
Movement of non-controlling interest in controlled entities	-	-	-	-	4	4
Balance at 30 September 2016	34,285	629	16,378	51,292	23	51,315

⁽¹⁾ Refer to Note 25 - Contributed equity for further details.

⁽²⁾ Refer to Note 26 - Reserves for further details.

⁽³⁾ Refer to Note 27 - Retained profits for further details.

⁽⁴⁾ Prior periods have not been restated to exclude discontinued operations.

⁽⁵⁾ Includes discontinued operations of GWB. Refer to Note 41 - Discontinued operations for further details.

⁽⁶⁾ Relates to shares in NAB previously held by NAB Wealth's life insurance business which are no longer held by a controlled entity of the Group. Refer to Note 41 - Discontinued operations for further details.

⁽⁷⁾ Refer to Note 28 - Dividends and distributions and Note 41 - Discontinued operations for further details.

⁽⁸⁾ Change in ownership interest in controlled entities that does not result in a loss of control.

Statements of changes in equity (continued)

Company ⁽⁴⁾	Contributed equity⁽¹⁾	Reserves⁽²⁾	Retained profits⁽³⁾	Total equity
	\$m	\$m	\$m	\$m
Year to 30 September 2015				
Balance at 1 October 2014	27,856	811	19,530	48,197
Restated for adoption of new accounting standards	-	(585)	(262)	(847)
Net profit for the year	-	-	5,940	5,940
Other comprehensive income for the year	-	138	52	190
Total comprehensive income for the year	-	138	5,992	6,130
Transactions with owners, recorded directly in equity:				
Contributions by and distributions to owners				
Issue of ordinary shares	1,937	-	-	1,937
Redemption of Trust Preferred Securities II	(1,014)	-	(8)	(1,022)
Rights issue	5,446	-	-	5,446
Transfer from equity-based compensation reserve	182	(182)	-	-
Transfer from / (to) retained profits	-	38	(38)	-
Equity-based compensation	-	120	-	120
Dividends paid	-	-	(4,670)	(4,670)
Distributions on other equity instruments	-	-	(74)	(74)
Balance at 30 September 2015	34,407	340	20,470	55,217
Year to 30 September 2016				
Net profit for the year from continuing operations	-	-	519	519
Other comprehensive income for the year	-	22	(131)	(109)
Total comprehensive income for the year	-	22	388	410
Transactions with owners, recorded directly in equity:				
Contributions by and distributions to owners				
Issue of ordinary shares	596	-	-	596
Transfer from equity-based compensation reserve	166	(166)	-	-
Capital distribution on CYBG demerger	(2,645)	-	-	(2,645)
Transfer from / (to) retained profits	-	(90)	90	-
Equity-based compensation	-	203	-	203
Dividends paid	-	-	(5,161)	(5,161)
Distributions on other equity instruments	-	-	(68)	(68)
Balance at 30 September 2016	32,524	309	15,719	48,552

⁽¹⁾ Refer to Note 25 - Contributed equity for further details.

⁽²⁾ Refer to Note 26 - Reserves for further details.

⁽³⁾ Refer to Note 27 - Retained profits for further details.

⁽⁴⁾ Prior periods have not been restated to exclude discontinued operations.

Notes to the financial statements

1 Principal accounting policies

The financial report of National Australia Bank Limited (Company) together with its controlled entities (Group) for the year ended 30 September 2016 was authorised for issue on 14 November 2016 in accordance with a resolution of the directors. The directors of the Group have the power to amend and reissue the financial report.

National Australia Bank Limited is a for-profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with the requirements of the *Corporations Act 2001* (Cth) and accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB). The financial report has been prepared under the historical cost convention, as modified by the application of fair value measurements required or allowed by relevant accounting standards. Accounting policies have been consistently applied to all periods presented, unless otherwise stated, throughout the Group.

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Group are discussed below in *Note 1(h) - Critical accounting assumptions and estimates*.

Comparative information has been restated to accord with changes in presentations made in the current year, except where otherwise stated. The results of discontinued operations are presented separately in the income statements and statements of comprehensive income with comparative information restated accordingly. Balance sheets have not been restated. Refer to *Note 41 - Discontinued operations* for further detail. Certain key terms used in this report are defined in the glossary.

The accounting policies for specific financial report items are disclosed in the respective notes. Other significant accounting policies and details of critical accounting assumptions and estimates are set out below.

(b) Statement of compliance

The financial report of the Company and the Group complies with Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

(c) New accounting standards issued but not yet effective

The following issued, but not yet effective, new Australian Accounting Standards have not been applied in preparing this financial report:

AASB 15 'Revenue from Contracts with Customers' introduces a single principles-based five step model for recognising revenue, and introduces the concept of recognising revenue when an obligation to a customer is satisfied. The potential impact of this standard is still being assessed, and is not applicable until 1 October 2018.

AASB 16 'Leases' significantly changes accounting for lessees requiring recognition of all leases (subject to certain exceptions) on-

balance sheet in a manner comparable to finance leases currently accounted under AASB 117 'Leases'. Lessor accounting remains unchanged compared to AASB 117. The potential impact of this standard is still being assessed, and is not applicable until 1 October 2019.

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

(d) Rounding of amounts

In accordance with ASIC Corporations Instrument 2016/191, all amounts have been rounded to the nearest million dollars, except where indicated.

(e) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

(f) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial report is presented in Australian dollars, which is the Company's functional and presentation currency.

Refer to *Note 26 - Reserves* for details around the Group's policy for translation of its foreign operations.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are normally recognised in the income statement. Non-monetary items are translated using the exchange rate at the date of the initial recognition of the asset or liability.

(g) Financial instruments

(i) Classification of financial instruments

The Group classifies its financial assets into the following measurement categories:

- those to be measured at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing financial assets and the contractual terms of the financial assets' cash flows.

The Group classifies its financial liabilities at amortised cost (Refer *Note 17 - Deposits and other borrowings*, *Note 18 - Bonds, notes and subordinated debt*, *Note 19 - Other debt issues* and *Note 24 - Other liabilities*) unless it has designated liabilities at fair value through profit or loss or is required to measure liabilities at fair value through profit or loss such as derivative liabilities.

(ii) Financial assets measured at amortised cost

Debt instruments

Investments in debt instruments are measured at amortised cost where they have:

Notes to the financial statements

1 Principal accounting policies (continued)

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described below in *Note 1 (vi) Impairment of financial assets*. Financial assets measured at amortised cost are included in *Note 9 - Cash and cash equivalents*, *Note 14 - Loans and advances* and *Note 22 - Other assets*.

(iii) Financial assets measured at fair value through other comprehensive income

Debt instruments

Investments in debt instruments are measured at fair value through other comprehensive income where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest revenue and foreign exchange gains and losses are recognised in profit and loss. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement. Refer *Note 12 - Debt instruments at fair value through other comprehensive income*.

The measurement of credit impairment is based on the three-stage expected credit loss model as applied to financial assets at amortised cost. The expected credit loss model is described below in *Note 1 (vi) Impairment of financial assets*.

Equity instruments

Investment in equity instruments that are neither held for trading nor contingent consideration recognised by the Group in a business combination to which AASB 3 'Business Combination' applies, are measured at fair value through other comprehensive income, where an irrevocable election has been made by management.

Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Refer *Note 22 - Other assets*.

(iv) Items at fair value through profit or loss

Items at fair value through profit or loss comprise:

- items held for trading;
- items specifically designated as fair value through profit or loss on initial recognition; and
- debt instruments with contractual terms that do not represent solely payments of principal and interest.

Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at

fair value and any gains or losses are recognised in the income statement as they arise.

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

Financial instruments held for trading

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Trading derivatives and trading securities are classified as held for trading and recognised at fair value. Refer to *Note 10 - Trading and hedging derivative assets and liabilities* and *Note 11 - Trading securities*.

Financial instruments designated as measured at fair value through profit or loss

Upon initial recognition, financial instruments may be designated as measured at fair value through profit or loss. A financial asset may only be designated at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis. Refer to *Note 13 - Other financial assets at fair value*.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch or:

- if a host contract contains one or more embedded derivatives; or
- if financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income. Refer to *Note 16 - Other financial liabilities at fair value*.

(v) Derivative financial instruments and hedge accounting

The Group elected an accounting policy choice under AASB 9 'Financial Instruments' to apply the hedge accounting requirements under AASB 139 'Financial Instruments: Recognition and Measurement'.

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

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

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Refer to *Note 10 - Trading and hedging derivative assets and liabilities*.

Notes to the financial statements

1 Principal accounting policies (continued)

(vi) Impairment of financial assets

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

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

No ECL is recognised on equity investments.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

Determining the stage for impairment

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis. Refer to *Note 33 - Financial risk management*.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

The Group assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking

into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

Measurement of ECLs

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

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

For further details on how the Group calculates ECLs including the use of forward looking information, refer to the *Credit quality of financial assets* section in *Note 33 - Financial risk management*. For details on the effect of modifications of loans on the measurement of ECL refer to *Note 15 - Provision for doubtful debts*.

ECLs are recognised using a provision for doubtful debts account in profit and loss. In the case of debt instruments measured at fair value through other comprehensive income, the measurement of ECLs is based on the three-stage approach as applied to financial assets at amortised cost. The Group recognises the provision charge in profit and loss, with the corresponding amount recognised in other comprehensive income, with no reduction in the carrying amount of the asset in the balance sheet.

(vii) Recognition and derecognition of financial instruments

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

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

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

A financial liability is derecognised from the balance sheet when the Group has discharged its obligation or the contract is cancelled or expires.

(viii) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when the Group has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously. Refer to *Note 33 -*

Notes to the financial statements

1 Principal accounting policies (continued)

Financial risk management - Offsetting of financial assets and liabilities.

(h) Critical accounting assumptions and estimates

The application of the Group's accounting policies requires the use of judgements, estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Group.

Assumptions made at each reporting date are based on best estimates at that date. Although the Group has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The accounting policies which are most sensitive to the use of judgement, estimates and assumptions are specified below.

(i) Fair value measurement

A significant portion of financial instruments are carried on the balance sheet at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Group has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

(ii) Impairment charges on loans and advances

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on

assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective assessment of impairment takes into account data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), and concentrations of risk and economic data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups). The impairment loss on loans and advances is disclosed in more detail in *Note 15 - Provision for doubtful debts*.

(iii) Goodwill

The determination of the fair value of assets and liabilities of acquired businesses requires the exercise of management judgement. Goodwill is allocated to disposed operations on the basis of the relative values of the disposed and retained operations and this also requires management judgement. Different fair values would result in changes to the goodwill balance and to the post-acquisition performance of the acquisition, or in the case of a disposal, the loss on sale.

Goodwill is assessed for impairment annually, or more frequently if there is indication that goodwill may be impaired. Determination of appropriate cash flows and discount rates for the calculation of value in use is subjective. The assumptions applied to determine if any impairment exists are outlined in *Note 21 - Goodwill and other intangible assets*.

(iv) Provisions other than loan impairment

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs and litigation provisions. Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows. The measurement of these provisions involves the exercise of management judgements about the ultimate outcomes of the transactions. Payments that are expected to be incurred after more than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

(v) Provisions for obligations to CYBG

As part of the arrangements relating to the CYBG demerger, NAB and CYBG entered into a Conduct Indemnity Deed under which NAB agreed, subject to certain limitations, to provide an indemnity in respect of certain historic conduct liabilities (Capped Indemnity) up to a cap of £1.115 billion (Capped Indemnity Amount). The Capped Indemnity provides CYBG with economic protection against certain costs and liabilities (including financial penalties imposed by a regulator).

The provisions recognised by the Group are based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement. There remain risks and uncertainties in relation to these assumptions and consequently in relation to ultimate costs of redress and related costs. Refer to *Note 31 - Contingent liabilities and credit commitments* for further information.

(i) Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations and, is part of a single coordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately in the income statements and statements of comprehensive income. Refer to *Note 41 - Discontinued operations* for further information.

Notes to the financial statements

Financial Performance

2 Segment information

The Group's reportable segments are business units engaged in providing either different products or services, or similar products and services in different geographical areas. The businesses are managed separately as each requires a strategy focused on the specific services provided for the economic, competitive and regulatory environment in which it operates.

Following the CYBG demerger on 8 February 2016, UK Banking is no longer a reportable segment of the Group. The Group's business now consists of the following reportable segments: Australian Banking, NZ Banking and NAB Wealth. In addition, information on Corporate Functions and Other is included in this note to reconcile to Group information.

The sale of 80% of NAB Wealth's life insurance business has resulted in the business being classified as a discontinued operation for the period ended 30 September 2016. The income statements, statements of comprehensive income and cash earnings of the NAB Wealth segment have been restated accordingly including prior period comparative numbers. The sale of 80% of NAB Wealth's life insurance business required the life insurance business to be structurally separated from the superannuation and investments business, which the Group is retaining. As part of this process, NAB simplified the structure of its superannuation business by merging five of its super funds into one fund, the MLC Super Fund, which occurred primarily by way of a Successor Fund Merger on 1 July 2016. This Successor Fund Merger also resulted in the relevant investment assets being transferred from the Group balance sheet to the MLC Super Fund, which is not a controlled entity of the Group.

For further information on discontinued operations refer to *Note 41 - Discontinued operations*.

The Group evaluates reportable segments' performance on the basis of cash earnings. Cash earnings is a non-IFRS key financial performance measure used by NAB, the investment community and NAB's Australian peers with similar business portfolios. It 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. Cash earnings represents the net profit attributable to owners of NAB, adjusted for discontinued operations, certain non-cash items and distributions.

Revenues, expenses and tax directly associated with each reportable segment are included in determining their result. Transactions between reportable segments are based on agreed recharges between segments operating within the same country and are at arm's length between segments operating in different countries.

Major customers

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

Reportable segments

For the year ended 30 September 2016 ⁽⁴⁾	Australian Banking ⁽¹⁾	NAB Wealth ⁽²⁾	NZ Banking	Corporate Functions & Other ⁽³⁾	Distributions & Eliminations	Group Cash Earnings
	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	11,170	-	1,505	255	-	12,930
Other operating income	2,878	1,233	460	(21)	(47)	4,503
Net operating income	14,048	1,233	1,965	234	(47)	17,433
Operating expenses	(5,782)	(758)	(777)	(168)	47	(7,438)
Underlying profit	8,266	475	1,188	66	-	9,995
Charge to provide for doubtful debts	(639)	-	(116)	(45)	-	(800)
Cash earnings before tax and distributions	7,627	475	1,072	21	-	9,195
Income tax expense	(2,155)	(119)	(294)	(20)	-	(2,588)
Cash earnings before distributions	5,472	356	778	1	-	6,607
Distributions	-	-	-	-	(124)	(124)
Cash earnings	5,472	356	778	1	(124)	6,483

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

⁽²⁾ Includes 20% of the net profit post tax from NAB Wealth's life insurance business representing the Group's retained investment in the business, on a pro forma basis.

⁽³⁾ Corporate Functions & Other includes Group Funding, NAB UK CRE and other supporting units.

⁽⁴⁾ Information is presented on a continuing operations basis including prior period restatements.

Notes to the financial statements

Financial Performance (continued)

For the year ended	Australian	NAB	NZ	Corporate	Distributions	Group Cash
30 September 2015 ⁽⁴⁾	Banking ⁽¹⁾	Wealth ⁽²⁾	Banking	Functions	&	Earnings
	\$m	\$m	\$m	& Other ⁽³⁾	Eliminations	\$m
	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	10,727	-	1,504	267	-	12,498
Other operating income	2,666	1,208	434	236	(37)	4,507
Net operating income	13,393	1,208	1,938	503	(37)	17,005
Operating expenses	(5,556)	(786)	(766)	(207)	37	(7,278)
Underlying profit	7,837	422	1,172	296	-	9,727
Charge to provide for doubtful debts	(665)	-	(124)	41	-	(748)
Cash earnings before tax and distributions	7,172	422	1,048	337	-	8,979
Income tax expense	(2,071)	(106)	(286)	(119)	-	(2,582)
Cash earnings before distributions	5,101	316	762	218	-	6,397
Distributions	-	-	-	-	(175)	(175)
Cash earnings	5,101	316	762	218	(175)	6,222

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

⁽²⁾ Includes 20% of the net profit post tax from NAB Wealth's life insurance business representing the Group's retained investment in the business, on a pro forma basis.

⁽³⁾ Corporate Functions & Other includes Group Funding, NAB UK CRE and other supporting units.

⁽⁴⁾ Information is presented on a continuing operations basis including prior period restatements.

Reportable segment assets	Australian	NAB	NZ	Corporate	Distributions	Group Total
30 September 2016	Banking ⁽¹⁾	Wealth ⁽²⁾	Banking	Functions	&	Assets
	\$m	\$m	\$m	& Other ⁽³⁾	Eliminations	\$m
	\$m	\$m	\$m	\$m	\$m	\$m
30 September 2016	721,237	5,353	73,916	24,932	(47,816)	777,622
30 September 2015 ⁽⁴⁾	738,847	101,246	64,481	30,594	(63,940)	871,228

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

⁽²⁾ NAB Wealth investment assets are no longer included on the Group balance sheet after the Successor Fund Merger on 1 July 2016.

⁽³⁾ Corporate Functions & Other includes Group Funding, NAB UK CRE and other supporting units.

⁽⁴⁾ Balances have not been restated to exclude discontinued operations, except for \$83,824 million of total assets relating to UK Banking as, following the CYBG demerger, UK Banking is no longer a reportable segment.

Reconciliations between reportable segment information and statutory results

The tables below reconcile the information in the segment tables presented above, which have been prepared on a cash earnings basis, to the relevant statutory information presented in the Financial Report. In addition to the sum of the reportable segments, the cash earnings basis includes the segments that do not meet the threshold to be reportable segments and intra group eliminations. The NAB Wealth adjustment represents a reallocation of the income statement of the NAB Wealth business prepared on a cash earnings basis into the appropriate statutory income statement lines.

	Group	
	2016 ⁽¹⁾	2015 ⁽¹⁾
	\$m	\$m
Net interest income		
Net interest income on a cash earnings basis	12,930	12,498
NAB Wealth net adjustment	-	(36)
Net interest income from continuing operations on a statutory basis	12,930	12,462
Total other income		
Total other operating income on a cash earnings basis ⁽²⁾	4,503	4,507
NAB Wealth net adjustment	801	755
Treasury shares	68	28
Fair value and hedge ineffectiveness	(141)	724
Life insurance 20% share of profit	(39)	(37)
Amortisation of acquired intangible assets	-	(2)
Total other income and net investment and insurance income from continuing operations on a statutory basis	5,192	5,975

⁽¹⁾ Information is presented on a continuing operations basis including prior period restatements.

⁽²⁾ Includes eliminations and distributions.

Notes to the financial statements

Financial Performance (continued)

	Group	
	2016 ⁽¹⁾	2015 ⁽¹⁾
	\$m	\$m
Operating expenses		
Operating expenses on a cash earnings basis ⁽²⁾	7,438	7,278
NAB Wealth net adjustment	801	811
Amortisation of acquired intangible assets	92	100
Operating expenses from continuing operations on a statutory basis	8,331	8,189
Charge to provide for doubtful debts		
Charge to provide for doubtful debts on a cash earnings basis	800	748
Fair value adjustment on loans and advances at fair value	13	(15)
Charge to provide for doubtful debts from continuing operations on a statutory basis	813	733
Income tax expense		
Income tax expense on a cash earnings basis	2,588	2,582
Income tax benefit / (expense) on non-cash earnings items:		
NAB Wealth net adjustment	(5)	(98)
Treasury shares	7	24
Fair value and hedge ineffectiveness	(28)	223
Amortisation of acquired intangible assets	(9)	(22)
Income tax expense on a statutory basis	2,553	2,709

⁽¹⁾ Information is presented on a continuing operations basis including prior period restatements.

⁽²⁾ Includes eliminations and distributions.

	Group	
	2016 ⁽¹⁾	2015 ⁽¹⁾
	\$m	\$m
Cash earnings		
Group cash earnings ⁽²⁾	6,483	6,222
Non-cash earnings items (after tax):		
Distributions	124	175
Treasury shares	61	4
Fair value and hedge ineffectiveness	(126)	516
Life insurance 20% share of profit	(39)	(37)
Amortisation of acquired intangible assets	(83)	(80)
Net (loss) attributable to discontinued operations	(6,068)	(462)
Net profit attributable to owners of NAB	352	6,338

⁽¹⁾ Information is presented on a continuing operations basis including prior period restatements.

⁽²⁾ Includes eliminations and distributions.

Geographical information

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

	Group			
	Income ⁽¹⁾		Non-current assets ⁽²⁾	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Australia	15,218	15,143	10,642	9,454
Europe	430	459	40	880
New Zealand	2,105	2,235	625	557
United States	151	366	1	1
Asia	264	284	18	19
Total from continuing operations before inter-geographic eliminations	18,168	18,487	11,326	10,911
Elimination of inter-geographic items	(46)	(50)	-	-
Total	18,122	18,437	11,326	10,911

⁽¹⁾ Information is presented on a continuing operations basis including prior period restatements.

⁽²⁾ Non-current assets refer to assets that include amounts expected to be recovered more than 12 months after the reporting date. They do not include financial instruments, deferred tax assets, post-employment benefits assets or rights under insurance contracts.

Notes to the financial statements

Financial Performance (continued)

Information about 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 other items which are included within the statutory net profit attributable to owners of NAB. Cash earnings does not purport to represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a cash flow statement. It is not a statutory financial measure, is not presented in accordance with Australian Accounting Standards and is not audited or reviewed in accordance with Australian Auditing Standards.

Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the year ended 30 September 2016 has been adjusted for the following:

- Distributions.
- Treasury shares.
- Fair value and hedge ineffectiveness.
- Amortisation of acquired intangible assets.
- Life insurance 20% share of profit.

Non-cash items in prior period comparatives have been restated to exclude discontinued operations as a result of the sale of 80% of NAB Wealth's life insurance business to Nippon Life and the CYBG demerger.

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 *Note 28 - Dividends and distributions*. The effect of this in the September 2016 full year is to reduce cash earnings by \$124 million.

Treasury Shares

For statutory reporting purposes, the Group eliminates the effect on statutory profit of the Group's investment in NAB shares that are consolidated into the Group. The elimination includes unrealised mark-to-market movements arising from changes in NAB's share price, dividend income and realised profits and losses on the disposal of shares. This results in an accounting mismatch because the impact of the life policy liabilities supported by these shares is reflected in statutory profit. As such the statutory treasury shares elimination is reversed for cash earnings purposes. In the September 2016 full year, there was an increase in statutory profit of \$68 million (\$61 million after tax) from these shares. As a result of the sale of 80% of NAB Wealth's life insurance business to Nippon Life, NAB will no longer consolidate managed schemes which invest in the treasury shares going forward.

Fair Value and Hedge Ineffectiveness

Fair value and hedge ineffectiveness causes volatility in statutory profit, which is excluded from cash earnings as it is income neutral over the full term of transactions. This arises from fair value movements relating to trading derivatives 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 2016 full year, there was a decrease in statutory profit of \$154 million (\$126 million after tax) from fair value and hedge ineffectiveness. This was largely due to the change in fair value of derivatives used to manage the Group's long-term funding from movements in spreads between Australian and overseas interest rates, and mark-to-market movements of assets and liabilities designated at fair value reflecting current market conditions. In particular, the impact of interest rate and foreign exchange movements has resulted in mark-to-market losses on these derivatives and term funding issuances.

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 2016 full year, there was a decrease in statutory profit of \$92 million (\$83 million after tax) due to the amortisation of acquired intangible assets.

Life Insurance 20% Share of Profit

Life insurance 20% share of profit represents the earnings associated with the 20% retained stake in NAB Wealth's life insurance business following the sale of 80% to Nippon Life with effect from 30 September 2016. For statutory reporting purposes, the full year profit of the life insurance business is presented within discontinued operations. The effect of the life insurance 20% share of profit adjustment on the September 2016 full year is to increase cash earnings by \$39 million (after tax). The life insurance 20% share of profit will be included in statutory profit from 1 October 2016 onwards.

Notes to the financial statements

Financial Performance (continued)

3 Net interest income

	Group		Company	
	2016 ⁽¹⁾	2015 ⁽¹⁾	2016	2015
	\$m	\$m	\$m	\$m
Interest income				
Due from other banks	585	545	525	467
Marketable debt securities	2,097	2,402	1,952	2,197
Loans and advances ⁽²⁾	23,486	23,569	19,138	19,093
Due from customers on acceptances	770	1,145	770	1,144
Due from controlled entities	-	-	3,700	3,429
Other interest income	691	686	639	510
Total interest income from continuing operations	27,629	28,347	26,724	26,840
Interest expense				
Due to other banks and official institutions	646	676	621	648
Deposits and other borrowings ⁽³⁾	8,733	9,993	7,499	8,117
Bonds, notes and subordinated debt ⁽⁴⁾	4,710	4,662	4,007	4,105
Due to controlled entities	-	-	4,434	3,843
Other debt issues	71	69	66	63
Other interest expense	539	485	584	545
Total interest expense from continuing operations	14,699	15,885	17,211	17,321
Net interest income from continuing operations	12,930	12,462	9,513	9,519

⁽¹⁾ Information is presented on a continuing operations basis including prior period restatements.

⁽²⁾ Includes \$1,383 million (2015: \$1,636 million) of interest income on loans and advances accounted for at fair value for the Group, and \$1,028 million (2015: \$1,166 million) for the Company.

⁽³⁾ Includes \$224 million (2015: \$228 million) of interest expense on deposits and other borrowings accounted for at fair value for the Group, and nil (2015: nil) for the Company.

⁽⁴⁾ Includes \$530 million (2015: \$595 million) of interest expense on bonds, notes and subordinated debt accounted for at fair value for the Group, and \$155 million (2015: \$172 million) for the Company.

Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest method is a method of calculating amortised cost using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability.

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

Interest income and expense on trading securities are recognised within net interest income. In certain circumstances, interest income and expense attributable to trading derivatives which are considered economic hedges are recognised within net interest income and not part of the fair value movement of the trading derivative.

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

Notes to the financial statements

Financial Performance (continued)

4 Other income

	Group		Company	
	2016 ⁽¹⁾	2015 ⁽¹⁾	2016	2015
	\$m	\$m	\$m	\$m
Gains less losses on financial instruments at fair value				
Trading securities	1,275	1,219	1,263	1,165
Trading derivatives	(275)	(554)	80	468
Assets, liabilities and derivatives designated in hedge relationships ⁽²⁾	(82)	611	358	239
Assets and liabilities designated at fair value	(187)	360	(147)	219
Other	96	(138)	72	(138)
Total gains less losses on financial instruments at fair value from continuing operations	827	1,498	1,626	1,953
Other operating income				
Dividend revenue				
Controlled entities	-	-	2,199	1,692
Other entities	21	26	65	33
Gains from sale of investments, loans, property, plant and equipment and other assets	52	168	52	126
Banking fees	897	868	753	731
Money transfer fees	596	589	466	462
Fees and commissions	1,670	1,586	420	444
Investment management fees	255	260	-	-
Other income	227	279	217	266
Total other operating income from continuing operations	3,718	3,776	4,172	3,754

⁽¹⁾ Information is presented on a continuing operations basis including prior period restatements.

⁽²⁾ Represents hedge ineffectiveness of designated hedging relationships.

Gains less losses on financial instruments at fair value

Gains less losses on financial instruments at fair value comprises of fair value movements on:

- Trading derivatives
- Trading securities
- Assets, liabilities and derivatives designated in hedging relationships
- Other financial assets and liabilities designated at fair value through profit or loss

In general, gains less losses on **trading derivatives** recognise the full change in fair value of the derivatives inclusive of interest income and expense, with the exception of certain trading derivatives which are considered economic hedges (see *Note 3 – Net interest income*).

Gains less losses on **trading securities** recognise the change in the fair value of these instruments excluding interest income or interest expense which is recognised separately in net interest income.

Gains less losses on **assets, liabilities and derivatives designated in hedge relationships** recognises fair value movements (excluding interest) on both the hedged item and hedging derivative in a fair value hedge relationship, and hedge ineffectiveness from both fair value and cash flow hedge relationships.

Gains less losses on other financial **assets and liabilities designated at fair value** through profit or loss recognises fair value movements (excluding interest) on those items designated as fair value through profit or loss. Changes in the fair value of financial liabilities designated at fair value through profit or loss attributable to the Group's own credit quality are presented separately in other comprehensive income.

Dividend income

Dividend income is recorded in the income statement on an accruals basis when the Group's right to receive the dividend is established.

Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction. Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

Any commitment fees related to undrawn lending facilities are recognised as income over the commitment period.

When the Group acts in the capacity of an agent, revenue is recognised as the net amount of fees and commissions made by the Group.

Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Notes to the financial statements

Financial Performance (continued)

5 Operating expenses

	Group		Company	
	2016 ⁽¹⁾	2015 ⁽¹⁾	2016	2015
	\$m	\$m	\$m	\$m
Personnel expenses				
Salaries and related on-costs	3,662	3,515	2,601	2,479
Superannuation costs - defined contribution plans	275	263	237	226
Performance-based compensation ⁽²⁾				
Cash	457	433	294	262
Equity-based compensation	197	113	177	90
Other expenses	161	205	138	157
Total personnel expenses from continuing operations	4,752	4,529	3,447	3,214
Occupancy-related expenses				
Operating lease rental expense	404	391	446	451
Other expenses	89	87	70	65
Total occupancy-related expenses from continuing operations	493	478	516	516
General expenses				
Fees and commission expense	280	272	46	58
Depreciation and amortisation of property, plant and equipment	274	271	126	117
Amortisation of intangible assets	347	288	243	170
Advertising and marketing	196	184	151	140
Charge to provide for operational risk event losses ⁽³⁾	48	89	793	41
Communications, postage and stationery	272	265	198	196
Computer equipment and software	621	632	586	592
Data communication and processing charges	89	86	51	49
Professional fees	500	508	367	471
Loss on disposal of property, plant and equipment and other assets	8	8	1	277
Impairment losses recognised ⁽⁴⁾	6	59	1,137	54
Loss on disposal of controlled entities ⁽⁵⁾	-	-	4,433	-
Other expenses	445	520	228	359
Total general expenses from continuing operations	3,086	3,182	8,360	2,524
Charge to provide for doubtful debts ⁽⁶⁾				
Loans and advances	813	733	702	604
Total charge to provide for doubtful debts continuing operations	813	733	702	604

⁽¹⁾ Information is presented on a continuing operations basis including prior period restatements.

⁽²⁾ Performance-based compensation includes deferred compensation that is expensed over the vesting period. Performance-based compensation expense in each year also includes prior period over/under accruals and does not include the impact of decisions made by the Board Remuneration Committee subsequent to balance date. The impact of any over/under accrual will be reflected in the following year.

⁽³⁾ The Company charge to provide for operational risk event losses includes provisions in relation to the Conduct Indemnity Deed for the September 2016 full year which are included in discontinued operations at a Group level. Refer to Note 41 – Discontinued operations for further information.

⁽⁴⁾ The Company charge includes the impairment of National Wealth Management Holdings which is eliminated at a Group level.

⁽⁵⁾ The Company charge includes the CYBG Group loss on sale and other related costs.

⁽⁶⁾ Refer to Note 15 - Provision for doubtful debts for further details of the Group's policy for recognition of charges to provide for doubtful debts.

Operating expenses are recognised as the underlying service is rendered or over the period in which an asset is consumed or once a liability is incurred.

Annual leave, long service leave and other employee benefits

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

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

The defined contribution plans receive fixed contributions and the obligation for contributions to these plans are recognised as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Refer to Note 23 - Provisions for details of employee benefit related provisions.

Notes to the financial statements

Financial Performance (continued)

Occupancy related expenses

Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease. When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the income statement in the period of termination. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Refer to *Note 32 - Operating leases* for details of the Group's future minimum operating leases commitments.

Operational risk event losses

Operational risk event losses relate to non-lending losses which include losses arising from specific legal actions not directly related to amounts of principal outstanding for loans and advances, and losses arising from forgeries, frauds and the correction of operational issues. Refer to *Note 23 - Provisions* for details of the Group's operating risk event losses provisions.

Depreciation and amortisation

Items of property, plant and equipment (with the exception of freehold land) are depreciated using the straight-line method at rates appropriate to their estimated useful life to the Group. Refer to *Note 20 - Property, plant and equipment* for details around the useful lives of specific asset classes.

Capitalised software costs and other intangible assets are amortised on a systematic basis, using the straight-line method over their expected useful lives. Refer to *Note 21 - Goodwill and other intangibles assets* for details around the useful lives of specific intangible asset classes.

Notes to the financial statements

Taxation

6 Income tax expense

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

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

	Group		Company	
	2016 ⁽¹⁾	2015 ⁽¹⁾	2016	2015
	\$m	\$m	\$m	\$m
Income tax expense				
Current tax	2,766	2,605	1,856	2,260
Deferred tax	(213)	104	(89)	168
Total income tax expense from continuing operations	2,553	2,709	1,767	2,428

⁽¹⁾ Information is presented on a continuing operations basis including prior period restatements.

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

	Group		Company	
	2016 ⁽¹⁾	2015 ⁽¹⁾	2016	2015
	\$m	\$m	\$m	\$m
Profit before income tax expense	8,978	9,515	2,286	8,368
Prima facie income tax at 30%	2,693	2,855	686	2,510
Add / (deduct) tax effect of amounts not deductible / (assessable):				
Assessable foreign income	4	7	4	4
Foreign tax rate differences	(36)	(32)	(20)	3
Losses not tax effected	42	50	42	49
Foreign branch income not assessable	(60)	(107)	(60)	(107)
(Over) / under provision in prior years	(26)	(28)	(18)	(15)
Offshore banking unit income	(56)	(32)	(46)	(25)
Restatement of deferred tax balances for tax rate changes	4	2	4	1
Treasury shares adjustment	(14)	15	-	-
Non-deductible hybrid distributions	58	47	58	47
Dividend income adjustments	-	-	(433)	(315)
Other ⁽²⁾	(56)	(68)	1,550	276
Total income tax expense from continuing operations	2,553	2,709	1,767	2,428

⁽¹⁾ Information is presented on a continuing operations basis including prior period restatements.

⁽²⁾ The Company reconciliation items disclosed as "Other" includes primarily the CYBG loss on sale plus other permanent adjustments which are non-deductible/non-assessable for tax purposes.

Tax consolidation

The Group and its wholly owned Australian resident entities formed a tax-consolidated group with effect from 1 October 2002 and are taxed as a single entity from that date. The head entity within the tax-consolidated group is National Australia Bank Limited.

Current tax expense (or benefit) and deferred tax assets and liabilities arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the Group allocation approach.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable to (or receivable from) other entities in the tax-consolidated group under the tax funding arrangement. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised by the Company as an equity contribution to or distribution from its subsidiaries.

The members of the tax-consolidated group have entered into a tax funding agreement that sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. Contributions to fund the current tax liabilities are payable in accordance with the tax funding agreement.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax or other value-added tax, except where the tax incurred is not recoverable from the relevant taxation authority. In these circumstances, the tax is recognised as part of the expense or the cost of acquisition of the asset.

Receivables and payables are stated at an amount with tax included. The net amount of tax recoverable from, or payable to, the relevant taxation authority is included in other assets or other liabilities. Cash flows are included in the cash flow statement on a gross basis. The tax component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the relevant taxation authority is classified as operating cash flows.

Notes to the financial statements

Taxation (continued)

7 Current tax liabilities

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Current tax liabilities	297	1,114	248	996
Total income tax liabilities	297	1,114	248	996

Current tax liability is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

8 Deferred tax assets and liabilities

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Deferred tax assets				
Life company statutory funds	-	473	-	-
Specific provision for doubtful debts	248	173	173	97
Collective provision for doubtful debts	713	760	606	648
Employee entitlements	263	317	238	285
Tax losses	104	750	74	118
Depreciation	-	233	-	-
Unrealised revaluations on Funding vehicles	528	556	-	-
Other	398	198	324	356
Total deferred tax assets	2,254	3,460	1,415	1,504
Set-off of deferred tax liabilities pursuant to set-off provisions	(329)	(1,319)	(243)	(247)
Net deferred tax assets	1,925	2,141	1,172	1,257
Deferred tax liabilities				
Intangible assets	8	16	-	-
Depreciation	196	133	148	59
Life company statutory funds	-	971	-	-
Defined benefit superannuation plan assets	10	11	6	6
Other	115	188	89	182
Total deferred tax liabilities	329	1,319	243	247
Deferred tax liabilities set-off against deferred tax assets pursuant to set-off provisions	(329)	(1,319)	(243)	(247)
Net deferred tax liability	-	-	-	-

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

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

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

Deferred tax assets not brought to account

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

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Capital gains tax losses	1,143	942	1,143	768
Income tax losses	444	526	444	489

Notes to the financial statements

Financial assets and liabilities

9 Cash and cash equivalents

Cash and cash equivalents comprise the net amount of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. They are held for the purposes of meeting short-term cash commitments (rather than for investment or other purposes). 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.

Refer to *Note 29(b) - Notes to the cash flow statements* for a detailed reconciliation of cash and cash equivalents.

Reverse repurchase and securities borrowing agreements

Reverse repurchase agreements (i.e. securities purchased under agreements to resell) are accounted for as collateralised loans. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Such amounts are normally classified as due from other banks or cash and liquid assets. Securities borrowed are not recognised in the financial statements unless they are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return securities borrowed is recorded at fair value.

As part of the reverse repurchase and securities borrowing agreements included within 'Cash and liquid assets' and 'Due from other banks', the Group has received securities that it is allowed to sell or re-pledge. The fair value of the securities accepted under these terms as at 30 September 2016 amounted to \$37,534 million (2015: \$38,350 million) for the Group and \$36,771 million (2015: \$37,555 million) for the Company, of which \$25,426 million (2015: \$21,201 million) for the Group and \$25,343 million (2015: \$21,098 million) for the Company have been sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short-sale transactions.

Where the securities pledged have been sold, the Group is obliged to return equivalent securities. The obligation to return securities for short-sale transactions is included in 'Other financial liabilities at fair value' (*Note 16 - Other financial liabilities at fair value*). These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing activities.

Repurchase agreements

Where the Group transacts in repurchase agreements (i.e. securities sold subject to repurchase agreements), the securities are retained in their respective balance sheet categories. The counterparty liability is included in amounts due to other banks and deposits and other borrowings, as appropriate, based on the counterparty to the transaction. Securities lent to counterparties are also retained in their respective balance sheet categories.

Due from and due to other banks

Due from other banks includes loans, deposits with central banks and other regulatory authorities and settlement account balances due from other banks. Amounts due from other banks are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost.

Due to other banks includes deposits, repurchase agreements and settlement account balances due to other banks. Amounts due to other banks are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost.

Cash and liquid assets

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Coins, notes and cash at bank	1,024	6,141	895	900
Securities purchased under agreements to resell ⁽¹⁾	28,219	23,292	27,762	23,111
Other (including bills receivable and remittances in transit)	1,387	1,501	60	297
Total cash and liquid assets	30,630	30,934	28,717	24,308

⁽¹⁾ Securities accepted under agreements to resell generally comprise of high quality government, financial institution or corporate debt securities. Accordingly, the fair value of these securities accepted is based primarily on Level 1 quoted market prices as at reporting date (Level 1 of the fair value hierarchy as defined in Note 34 - Fair value of financial instruments) or Level 2 market observable inputs in the case of various financial institution or corporate securities.

Due from other banks

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Central banks and other regulatory authorities	26,472	28,443	25,107	16,568
Other banks	18,764	22,152	18,252	21,130
Total due from other banks	45,236	50,595	43,359	37,698

Notes to the financial statements

Financial assets and liabilities (continued)

Due to other banks

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Central banks and other regulatory authorities	19,777	24,047	19,777	24,047
Other banks	24,126	30,358	22,872	27,891
Total due to other banks	43,903	54,405	42,649	51,938

10 Trading and hedging derivative assets and liabilities

Derivative financial instruments held or issued for trading purposes

The Group maintains trading positions in a variety of derivative financial instruments and acts primarily in the market by satisfying the needs of its customers through foreign exchange, interest rate-related and credit-related contracts. In addition, the Group takes positions on its own account, and carries an inventory of capital market instruments. Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as trading. The held for trading classification therefore includes those derivatives used for risk management purposes which for various reasons do not meet the qualifying criteria for hedge accounting. The carrying value of a derivative classified as trading is remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

If a hybrid contract contains a host that is not an asset within the scope of AASB 9 'Financial Instruments', an embedded derivative shall be separated from the host contract and accounted for separately. If the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Where a hybrid contains a host that is a financial asset in the scope of AASB 9 'Financial Instruments', the entire hybrid contract, including all embedded features, is assessed under the financial asset classification criteria in AASB 9 'Financial Instruments'.

Derivative financial instruments held for hedging purposes

The operations of the Group are subject to risk of interest rate fluctuations to the extent of the repricing profile of the Group's balance sheet. Derivative financial instruments are held for the purpose of managing existing or anticipated interest rate risk from this source which is primarily in the Group's banking operations. The Group monitors this non-trading interest rate risk by simulating future net interest income requirements, through the application of a range of possible future interest rate scenarios to its projected balance sheet. The Group also holds derivative financial instruments for the purpose of hedging foreign exchange risk. Foreign exchange derivatives are used predominantly to hedge borrowings and anticipated cash flows in currencies other than the Australian dollar.

The Group designates certain derivatives as:

- Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges).
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (cash flow hedges).
- Hedges of net investments in foreign operations.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. In some instances, where hedge accounting under AASB 139 is not consistent with the Group's hedging strategy, proxy hedge accounting is applied in line with the risk management objective. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, the risk being hedged and the Group's risk management objective and strategy for undertaking these hedge transactions. The Group also documents how effectiveness will be measured throughout the life of the hedge relationship. In addition, the Group documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group measures hedge effectiveness on a prospective basis at inception, as well as retrospectively and prospectively over the term of the hedge relationship. Hedge effectiveness is assessed through the application of regression and dollar offset analysis. Sources of ineffectiveness in hedge accounting include the impact of credit risk on the valuation of the hedging derivative and hedged item. To mitigate the impact of credit risk, the Group executes hedging derivatives with high quality counterparties and the majority of the Group's hedging derivatives are collateralised.

Certain derivative instruments do not qualify for hedge accounting. This could occur for two reasons:

- The derivative is held for the purpose of short-term profit taking (i.e. for trading purposes).
- The derivative is held to economically hedge an exposure but does not meet the accounting criteria for hedge accounting.

In both of these cases, the derivative is classified as a trading derivative and recognised at fair value with the attributable transaction costs recognised in the income statement as incurred.

(a) Fair value hedges

The Group applies fair value hedge accounting to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk, as well as assets and liabilities subject to foreign exchange risk. Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability.

Notes to the financial statements

Financial assets and liabilities (continued)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement on an effective yield basis. Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement.

(b) Cash flow hedges

The Group applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk on variable rate assets and liabilities, and assets and liabilities subject to foreign exchange risk. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period(s) in which the hedged item affects the income statement (e.g. when the forecast hedged variable cash flows are recognised in the income statement).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. All gains or losses reclassified from cash flow hedge reserve to profit and loss are recognised in net interest income or other operating income, depending on the hedged exposure. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity at that time is immediately transferred to the income statement.

(c) Net investment hedges

Net investment hedges are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the foreign currency translation reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are transferred to the income statement when the foreign operation is disposed.

Net investment hedging instruments often comprise derivatives such as forward rate agreements and foreign exchange related contracts or alternatively recognised monetary item borrowings denominated in the functional currency of the underlying foreign operation. Refer to *Note 33 - Financial risk management* for further details on the Group's hedges of net investments in foreign operations.

The tables below set out the fair value of both trading and hedging derivatives:

Trading derivative financial instruments

	Group			
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
	2016	2016	2015	2015
	\$m	\$m	\$m	\$m
Foreign exchange rate-related contracts				
Spot and forward contracts	4,656	4,720	9,946	8,168
Cross currency swaps	13,104	13,480	24,404	22,706
Options / swaptions purchased	132	51	276	69
Options / swaptions written	52	213	65	184
Total foreign exchange rate-related contracts	17,944	18,464	34,691	31,127
Interest rate-related contracts				
Forward rate agreements	10	11	22	26
Swaps	23,068	21,135	41,265	40,837
Futures	682	766	969	1,165
Options / swaptions purchased	344	123	329	106
Options / swaptions written	484	623	416	587
Total interest rate-related contracts	24,588	22,658	43,001	42,721
Credit derivatives	142	144	139	130
Commodity derivatives	177	164	335	277
Other derivatives	280	224	218	187
Total trading derivative financial instruments	43,131	41,654	78,384	74,442

Notes to the financial statements

Financial assets and liabilities (continued)

Trading derivative financial instruments

	Company			
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
	2016	2016	2015	2015
	\$m	\$m	\$m	\$m
Foreign exchange rate-related contracts				
Spot and forward contracts	4,305	4,336	9,522	7,801
Cross currency swaps	14,084	13,809	25,369	23,965
Options / swaptions purchased	127	141	273	97
Options / swaptions written	52	125	64	156
Total foreign exchange rate-related contracts	18,568	18,411	35,228	32,019
Interest rate-related contracts				
Forward rate agreements	9	11	23	26
Swaps	21,749	18,480	41,482	38,965
Futures	682	766	969	1,165
Options / swaptions purchased	343	123	332	107
Options / swaptions written	484	623	420	588
Total interest rate-related contracts	23,267	20,003	43,226	40,851
Credit derivatives	145	147	139	130
Commodity derivatives	177	164	334	277
Other derivatives	283	224	222	182
Total trading derivative financial instruments	42,440	38,949	79,149	73,459

Hedging derivative financial instruments

	Group			
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
	2016	2016	2015	2015
	\$m	\$m	\$m	\$m
Derivatives held for hedging - fair value hedges				
Foreign exchange rate-related contracts				
Spot and forward contracts	3	4	-	-
Cross currency swaps	5,248	987	9,819	1,101
Total foreign exchange rate-related contracts	5,251	991	9,819	1,101
Interest rate-related contracts				
Swaps	761	1,999	837	2,576
Total interest rate-related contracts	761	1,999	837	2,576
Total derivatives held for hedging - fair value hedges	6,012	2,990	10,656	3,677
Derivatives held for hedging - cash flow hedges				
Foreign exchange rate-related contracts				
Cross currency swaps	-	-	17	116
Total foreign exchange rate-related contracts	-	-	17	116
Interest rate-related contracts				
Swaps	393	251	899	746
Total interest rate-related contracts	393	251	899	746
Total derivatives held for hedging - cash flow hedges	393	251	916	862
Derivatives held for hedging - net investment hedges				
Foreign exchange rate-related contracts				
Forward rate agreements ⁽¹⁾	2	4	27	-
Total foreign exchange rate-related contracts	2	4	27	-
Total derivatives held for hedging - net investment hedges	2	4	27	-
Total hedging derivative financial instruments	6,407	3,245	11,599	4,539

⁽¹⁾ Refer to Note 33 - Financial risk management for further details on the net investment hedge.

Notes to the financial statements

Financial assets and liabilities (continued)

Hedging derivative financial instruments

	Company			
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
	2016 \$m	2016 \$m	2015 \$m	2015 \$m
Derivatives held for hedging - fair value hedges				
Foreign exchange rate-related contracts				
Spot and forward contracts	-	4	2	-
Cross currency swaps	5,093	4,354	9,649	5,510
Total foreign exchange rate-related contracts	5,093	4,358	9,651	5,510
Interest rate-related contracts				
Forward rate agreements	-	-	-	-
Swaps	671	1,885	856	2,421
Total interest rate-related contracts	671	1,885	856	2,421
Total derivatives held for hedging - fair value hedges	5,764	6,243	10,507	7,931
Derivatives held for hedging - cash flow hedges				
Interest rate-related contracts				
Swaps	232	215	712	633
Total interest rate-related contracts	232	215	712	633
Total derivatives held for hedging - cash flow hedges	232	215	712	633
Total hedging derivative financial instruments	5,996	6,458	11,219	8,564

Hedging derivative financial instruments

	Group		Company	
	2016 ⁽¹⁾	2015 ⁽¹⁾	2016	2015
	\$m	\$m	\$m	\$m
Gains / (losses) arising from fair value hedges				
(Losses) / gains on hedging instruments	(2,304)	6,116	(1,552)	2,892
Gains / (losses) on the hedged items attributable to the hedged risk	2,217	(5,508)	1,434	(2,345)
Gains arising from cash flow hedges				
Gains on hedge ineffectiveness	6	5	6	1

⁽¹⁾ Information is presented on a continuing operations basis including prior period restatements.

11 Trading securities

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Government bonds, notes and securities	21,247	17,602	18,225	15,234
Semi-government bonds, notes and securities	4,523	4,737	4,037	4,057
Corporate / financial institution bonds, notes and securities	19,096	19,605	18,188	18,230
Other bonds, notes and securities	1,105	993	1,063	991
Total trading securities	45,971	42,937	41,513	38,512

12 Debt instruments at fair value through other comprehensive income

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Government bonds, notes and securities	2,562	5,172	2,562	2,048
Semi-government bonds, notes and securities	21,186	22,194	21,186	22,194
Corporate / financial institution bonds, notes and securities	8,793	9,526	8,700	9,409
Other bonds, notes and securities	8,148	8,297	8,132	8,293
Total debt instruments at fair value through other comprehensive income	40,689	45,189	40,580	41,944

13 Other financial assets at fair value

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Loans at fair value	19,864	27,545	14,560	18,699
Other financial assets at fair value	1,632	2,151	271	605
Total other financial assets at fair value	21,496	29,696	14,831	19,304

Notes to the financial statements

Financial assets and liabilities (continued)

Loans

The maximum credit exposure of loans (excluding any undrawn facility limits) included in other financial assets at fair value through profit or loss (designated on initial recognition) is \$19,864 million (2015: \$27,545 million) for the Group and \$14,560 million (2015: \$18,699 million) for the Company. The cumulative change in fair value of the loans attributable to changes in credit risk amounted to a \$148 million loss (2015: \$322 million loss) for the Group and a \$103 million loss (2015: \$199 million loss) for the Company and the change for the current year is a \$174 million gain (2015: \$484 million gain) for the Group and a \$96 million gain (2015: \$261 million gain) for the Company.

14 Loans and advances

Loans and advances are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost, using the effective interest method, net of any provision for doubtful debts.

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Housing loans	314,557	341,965	278,659	265,149
Other term lending	168,604	157,631	139,632	124,106
Asset and lease financing	10,949	11,764	10,478	10,254
Overdrafts	6,304	8,912	4,223	4,212
Credit card outstandings	7,518	8,078	6,439	6,218
Other lending	5,759	8,815	5,215	7,447
Total gross loans and advances	513,691	537,165	444,646	417,386
Deduct:				
Unearned income and deferred net fee income	(532)	(861)	(700)	(870)
Provision for doubtful debts	(3,114)	(3,520)	(2,625)	(2,527)
Total net loans and advances	510,045	532,784	441,321	413,989

Description of collateral held as security and other credit enhancements

The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include:

- A floating charge over all assets and undertakings of an entity, including uncalled capital and called but unpaid capital.
- Specific or inter-locking guarantees.
- Specific charges over defined assets of the counterparty.
- Loan agreements which include affirmative and negative covenants and in some instances, guarantees of counterparty obligations.

Loans and advances by credit quality

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Gross loans and advances				
Neither past due nor impaired	500,435	525,144	433,319	408,118
Past due but not impaired	10,646	10,051	9,747	8,043
Impaired	2,610	1,970	1,580	1,225
Total gross loans and advances	513,691	537,165	444,646	417,386

Loans and advances past due but not impaired

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
1 to 7 day(s) past due	4,675	4,100	4,349	3,431
8 to 29 days past due	2,028	1,871	1,809	1,482
30 to 59 days past due	1,288	1,261	1,177	986
60 to 89 days past due	680	697	630	536
Past due over 90 days	1,975	2,122	1,782	1,608
Total loans and advances past due but not impaired	10,646	10,051	9,747	8,043

Loans and advances that are past due but are not impaired are classified as such where net current market value of supporting security is sufficient to cover all principal, interest and other amounts (including legal, enforcement, realisation costs etc.) due on the facility.

Notes to the financial statements

Financial assets and liabilities (continued)

15 Provision for doubtful debts

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Specific provision for doubtful debts - Lifetime Expected Credit Losses (ECL)	706	637	603	332
Collective provision for doubtful debts - Lifetime ECL	2,079	2,428	1,753	1,883
Collective provision for doubtful debts - 12-months ECL	329	455	269	312
Total collective provision for doubtful debts	2,408	2,883	2,022	2,195
Total provision for doubtful debts	3,114	3,520	2,625	2,527

Group	Collective provision 12-months ECL	Collective provision Lifetime ECL not credit impaired	Collective provision Lifetime ECL credit impaired	Collective provision	Specific provision Lifetime ECL credit impaired	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2014	-	-	-	1,760	1,358	3,118
Restated for adoption of new accounting standards	559	1,639	567	(1,760)	(322)	683
Changes due to financial assets recognised in the opening balance that have:						
Transferred to 12-months ECL	480	(450)	(30)	-	-	-
Transferred to Lifetime ECL not credit impaired	(56)	119	(63)	-	-	-
Transferred to Lifetime ECL credit impaired - collective provision	(4)	(57)	61	-	-	-
Transferred to Lifetime ECL credit impaired - specific provision	(3)	(67)	(132)	-	202	-
Bad debts recovered	-	-	-	-	129	129
Bad debts written off	-	-	-	-	(1,300)	(1,300)
Charge to income statement from continuing operations	(436)	705	46	-	418	733
Charge to income statement from discontinued operations ⁽¹⁾	(84)	109	(23)	-	127	129
Derecognised in respect of the group disposal ⁽²⁾	(27)	(52)	(1)	-	(13)	(93)
Foreign currency translation and other adjustments	26	42	15	-	38	121
Balance at 30 September 2015	455	1,988	440	-	637	3,520
Changes due to financial assets recognised in the opening balance that have:						
Transferred to 12-months ECL	543	(520)	(23)	-	-	-
Transferred to Lifetime ECL not credit impaired	(45)	98	(53)	-	-	-
Transferred to Lifetime ECL credit impaired - collective provision	(3)	(76)	79	-	-	-
Transferred to Lifetime ECL credit impaired - specific provision	(2)	(120)	(114)	-	236	-
Bad debts recovered	-	-	-	-	119	119
Bad debts written off	-	-	-	-	(778)	(778)
Charge to income statement from continuing operations	(539)	518	170	-	664	813
Charge to income statement from discontinued operations ⁽¹⁾	21	8	21	-	20	70
Derecognised in respect of the group disposal ⁽²⁾	(85)	(222)	(94)	-	(174)	(575)
Foreign currency translation and other adjustments	(16)	(17)	(4)	-	(18)	(55)
Balance at 30 September 2016	329	1,657	422	-	706	3,114

⁽¹⁾ Includes discontinued operations of GWB and CYBG in the 2015 comparative period and CYBG in the 2016 full year. Refer to Note 41 – Discontinued operations for further details.

⁽²⁾ The September 2015 full year reflects the disposal of GWB, and the September 2016 full year reflects the CYBG demerger. Refer to Note 41 – Discontinued operations for further details.

Impact of movements in gross carrying amount on provision for doubtful debts

Provision for doubtful debts reflects expected credit losses (ECL) measured using the three-stage approach, as described in *Note 1 - Principal accounting policies*. The following explains how significant changes in the gross carrying amount of loans and advances during the year have contributed to the changes in the provision for doubtful debts for the Group under the expected credit loss model.

Overall, the total provision for doubtful debts decreased by \$406 million compared to the balance at the beginning of the year. This net reduction was largely driven by the CYBG demerger, partly offset by specific provisioning for credit-impaired assets.

Specific provisions increased by \$69 million primarily due to individually assessed credit impaired assets on a small number of large single names, partly offset by the CYBG demerger.

This was offset by a net decrease in collective provisions of \$475 million which comprised of:

- Collective provision 12-months ECL (Stage 1) – decreased by \$126 million due to loans and advances that were repaid or had migrated to Lifetime ECL – not credit impaired, which was partly offset by provisions associated with newly originated loans and advances and loans that migrated back to Stage 1 due to improvement in credit quality.
- Collective provision Lifetime ECL – not credit-impaired (Stage 2) – decreased by \$331 million, largely due to the CYBG demerger, repayment of loans and the migration of loans back to Stage 1 due to improved credit quality. The decrease was partly offset by collective provision overlays for the mining, mining related and agriculture sectors.
- Collective provision Lifetime ECL – credit-impaired (Stage 3) – decreased by \$18 million, mainly due to individually assessed credit impaired assets, the CYBG demerger and loans that migrated from Stage 3 to Stage 2, partly offset by loans that had migrated from Stage 2 to Stage 3.

Notes to the financial statements

Financial assets and liabilities (continued)

Company	Collective provision	Collective provision	Collective provision	Collective provision	Specific provision	Total
	12-months ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Lifetime ECL credit impaired	Lifetime ECL credit impaired	
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2014	-	-	-	1,403	1,022	2,425
Restated for adoption of new accounting standards	372	1,315	390	(1,403)	(325)	349
Changes due to financial assets recognised in the opening balance that have:						
Transferred to 12-mth ECL	397	(379)	(18)	-	-	-
Transferred to Lifetime ECL not credit impaired	(41)	95	(54)	-	-	-
Transferred to Lifetime ECL credit impaired - collective provision	(2)	(46)	48	-	-	-
Transferred to Lifetime ECL credit impaired - specific provision	(2)	(40)	(102)	-	144	-
Bad debts recovered	-	-	-	-	88	88
Bad debts written off	-	-	-	-	(956)	(956)
Charge to income statement	(416)	621	49	-	350	604
Foreign currency translation and other adjustments	4	3	1	-	9	17
Balance at 30 September 2015	312	1,569	314	-	332	2,527
Changes due to financial assets recognised in the opening balance that have:						
Transferred to 12-months ECL	430	(412)	(18)	-	-	-
Transferred to Lifetime ECL not credit impaired	(36)	80	(44)	-	-	-
Transferred to Lifetime ECL credit impaired - collective provision	(2)	(47)	49	-	-	-
Transferred to Lifetime ECL credit impaired - specific provision	(2)	(109)	(93)	-	204	-
Bad debts recovered	-	-	-	-	98	98
Bad debts written off	-	-	-	-	(668)	(668)
Charge to income statement	(419)	360	115	-	646	702
Foreign currency translation and other adjustments	(14)	(10)	(1)	-	(9)	(34)
Balance at 30 September 2016	269	1,431	322	-	603	2,625

Impact of movements in gross carrying amount on provision for doubtful debts

Provision for doubtful debts reflects expected credit losses (ECL) measured using the three-stage approach, as described in *Note 1 - Principal accounting policies*. The following explains how significant changes in the gross carrying amount of loans and advances during the year have contributed to the changes in the provision for doubtful debts for the Company under the expected credit loss model.

Overall, the total provision for doubtful debts increased by \$98 million compared to the balance at the beginning of the year. This net increase was largely driven by increased specific provisioning for credit-impaired assets.

Specific provisions increased by \$271 million primarily due to individually assessed credit impaired assets on a small number of large single names during the year.

This was offset by a net decrease in collective provisioning of \$173 million which comprised of:

- Collective provision 12-months ECL (Stage 1) – decreased by \$43 million, primarily due to repayment of loans and advances and the migration to Lifetime ECL – not credit impaired. The decrease was offset by provisions associated with new loans and loans that migrated back to Stage 1 due to improvement in credit quality.
- Collective provision Lifetime ECL – not credit-impaired (Stage 2) – decreased by \$138 million, primarily due to repayment and migration of loans back to Stage 1 as result of credit quality improvements, partly offset by the re-assessment of portfolio ratings and collective provision overlays for the mining, mining related and agriculture sectors.
- Collective provision Lifetime ECL – credit-impaired (Stage 3) – increased by \$8 million, primarily due to loans that had migrated from Stage 2, partly offset by loans and advances to specific provision Lifetime ECL credit impaired.

Write-offs still under enforcement activity

The contractual amount outstanding on loans and advances that were written off during the reporting period, and are still subject to enforcement activity was \$182 million (2015: \$388 million) for the Group and \$169 million (2015: \$316 million) for the Company.

Information about the nature and effect of modifications on the measurement of provision for doubtful debts

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different instrument. Where such loans are derecognised, the renegotiated contract is a new loan and impairment is assessed in accordance with the Group's accounting policy.

Where the renegotiation of such loans are not derecognised, impairment continues to be assessed for significant increases in credit risk compared to the initial origination credit risk rating.

Notes to the financial statements

Financial assets and liabilities (continued)

The following table discloses information on loans and advances that were modified but not derecognised during the year, for which the provision for doubtful debts was measured at a lifetime ECL at the beginning of the year, and at the end of the year had changed to a 12-months ECL:

	Group		Company	
	2016 \$m	2015 ⁽¹⁾ \$m	2016 \$m	2015 ⁽¹⁾ \$m
Amortised cost before the modification	483	467	374	394
Gross carrying amount at end of reporting period	462	446	354	380

⁽¹⁾ The 2015 comparative information has been restated due to changes in methodology to exclude off balance sheet and include facility balances.

Refer Note 33 - Financial risk management for details on impaired assets. The following table provides an analysis of the credit quality of the Group's loans and advances. Gross amounts are shown before taking into account any collateral held or other credit enhancements.

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Gross impaired assets ⁽¹⁾	2,642	2,050	1,604	1,266
Specific provision for doubtful debts ⁽²⁾	(712)	(671)	(607)	(341)
Net impaired assets ⁽³⁾	1,930	1,379	997	925

⁽¹⁾ Gross impaired assets include \$14 million (2015: \$58 million) for the Group and \$7 million (2015: \$21 million) for the Company of gross impaired other financial assets at fair value, \$18 million (2015: \$22 million) of impaired off-balance sheet credit exposures for the Group and \$17 million (2015: \$20 million) for the Company, and \$785 million (2015: nil) for the Group and nil (2015: nil) for the Company of New Zealand Banking dairy exposures currently assessed as no loss based on collective provision and security held.

⁽²⁾ Specific provision for doubtful debts includes \$6 million (2015: \$34 million) for the Group and \$4 million (2015: \$9 million) for the Company of fair value credit adjustments on other financial assets at fair value.

⁽³⁾ The fair value of security in respect of impaired assets is \$1,810 million (2015: \$1,358 million) for the Group and \$883 million (2015: \$923 million) for the Company. Fair value amounts of security held in excess of the outstanding balance of individual impaired assets are not included in these amounts.

16 Other financial liabilities at fair value

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Bonds, notes and subordinated debt	19,697	19,471	3,751	4,785
Deposits and other borrowings				
On-demand and short-term deposits	300	190	-	-
Certificates of deposit	2,247	1,553	-	-
Term deposits	5,604	3,468	-	-
Borrowings	3,502	3,016	-	-
Securities sold short	1,628	2,144	1,628	2,144
Other financial liabilities	246	204	29	29
Total other financial liabilities at fair value	33,224	30,046	5,408	6,958

The change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a loss for the year of \$113 million (2015: \$157 million gain) for the Group and a loss of \$131 million (2015: \$48 million gain) for the Company. The cumulative change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a loss of \$209 million (2015: \$96 million) for the Group and a loss of \$148 million (2015: \$17 million) for the Company. The contractual amount to be paid at the maturity of the bonds, notes and subordinated debt is \$18,773 million (2015: \$18,612 million) for the Group and \$3,303 million (2015: \$4,489 million) for the Company.

17 Deposits and other borrowings

Deposits and other borrowings include non-interest-bearing deposits redeemable at call, on-demand and short-term deposits lodged for periods of less than 30 days, certificates of deposit, interest-bearing deposits, debentures and other borrowings. Deposits and other borrowings are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost.

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Deposits				
Term deposits	153,181	157,572	132,344	126,660
On-demand and short-term deposits	189,718	216,530	171,783	159,424
Certificates of deposit	43,763	38,691	43,764	38,488
Deposits not bearing interest	41,698	41,138	37,296	33,490
Other borrowings	15,290	26,162	14,990	24,806
Securities sold under agreements to repurchase	16,064	8,917	16,064	8,917
Total deposits and other borrowings	459,714	489,010	416,241	391,785

Notes to the financial statements

Financial assets and liabilities (continued)

18 Bonds, notes and subordinated debt

Bonds, notes, subordinated debt and other debt issues are short and long-term debt issues including commercial paper, notes, term loans, medium-term notes, mortgage backed securities and other discrete debt issues.

Bonds, notes, subordinated debt and other debt issues are generally initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. Premiums, discounts and associated issue expenses are recognised using the effective interest method through the income statement from the date of issue to accrete the carrying value of securities to redemption values by maturity date. Embedded derivatives within debt instruments are separately accounted for where not closely related to the terms of the host debt instrument.

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Medium-term notes	90,271	87,553	90,271	87,553
Other senior notes	28,332	34,816	24,132	23,733
Subordinated medium-term notes	9,020	8,011	9,020	8,011
Other subordinated notes	516	299	-	-
Total bonds, notes and subordinated debt	128,139	130,679	123,423	119,297
Net discounts	(197)	(161)	(197)	(161)
Total net bonds, notes and subordinated debt	127,942	130,518	123,226	119,136

Issued bonds, notes and subordinated debt by currency

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
AUD	35,863	33,656	31,815	30,346
USD	39,663	36,719	39,648	35,607
EUR	28,380	30,280	28,244	28,598
GBP	11,004	17,776	11,004	12,497
Other	13,032	12,087	12,515	12,088
Total bonds, notes and subordinated debt	127,942	130,518	123,226	119,136

Subordinated medium term notes

Currency	Notional amount m	Maturity / First optional call date	Group		Company	
			2016 \$m	2015 \$m	2016 \$m	2015 \$m
AUD	950	Floating due 2017	950	950	950	950
AUD	1,173	Floating due 2017	1,171	1,173	1,171	1,173
GBP	350	Fixed due 2018	647	849	647	849
EUR	500	Fixed due 2018	798	910	798	910
EUR	750	Fixed due 2019	1,100	1,201	1,100	1,201
EUR	1,000	Fixed due 2020	1,575	1,771	1,575	1,771
AUD	1,100	Floating due 2020	1,100	1,100	1,100	1,100
AUD	650	Floating due 2021	650	-	650	-
AUD	150	Fixed due 2021	151	-	151	-
HKD	1,137	Fixed due 2021	195	-	195	-
JPY	10,000	Fixed due 2021	130	-	130	-
SGD	450	Fixed due 2023	493	-	493	-
AUD	20	Fixed due 2027	30	28	30	28
AUD	20	Fixed due 2028	30	29	30	29
Total			9,020	8,011	9,020	8,011

Other subordinated notes

On 17 December 2015, Bank of New Zealand (BNZ) issued NZD\$550 million of subordinated unsecured notes in New Zealand, treated as Tier 2 capital under the National Australia Bank Limited's regulatory capital requirements. The BNZ Subordinated Notes will mature in December 2025, but in certain circumstances (subject to APRA and RBNZ approval) BNZ may, at its option, repay some or all of the BNZ Subordinated Notes on 17 December 2020 or on any scheduled interest payment date thereafter. The BNZ Subordinated Notes pay a fixed rate of interest, reset on the Optional Redemption Date. The carrying value of these notes is included within Other subordinated notes.

The Group holds derivative financial instruments to manage interest rate and foreign exchange risk on bonds, notes and subordinated debt. Refer to *Note 10 - Trading and hedging derivative assets and liabilities* for further information on the Group's trading and hedging derivative assets and liabilities.

Refer to *Note 33 - Financial risk management* for a description of the Group's risk management practices in relation to market risks such as interest rate, foreign currency and liquidity risk.

In certain circumstances the Group applies the fair value measurement option to bonds, notes and subordinated debt issues and other debt issues. This option is applied where an accounting mismatch is significantly reduced or eliminated that would otherwise occur if the liability was measured on another

Notes to the financial statements

Financial assets and liabilities (continued)

basis. Where liabilities are designated at fair value through profit or loss, they are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses (except for changes in own credit risk) are recognised in the income statement as they arise. Refer to *Note 16 - Other financial liabilities at fair value* for further information.

19 Other debt issues

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Perpetual floating rate notes	220	239	220	239
National capital instruments	-	640	-	-
Capital notes	-	878	-	878
Convertible preference shares and convertible notes	6,028	4,535	6,028	4,535
Total other debt issues	6,248	6,292	6,248	5,652

Perpetual Floating Rate Notes

On 9 October 1986, the Group issued US\$250 million undated subordinated floating rate notes. Interest is payable semi-annually in arrears in April and October at a rate of 0.15% per annum above the arithmetic average of the rates offered by the reference banks for six month US dollar deposits in London. The floating rate notes are unsecured and have no final maturity. All or some of the floating rate notes may be redeemed at the option of the Group with the prior consent of APRA. In July 2009, the Group repurchased US\$82.5 million floating rate notes, which were subsequently cancelled by the Group.

National Capital Instruments

On 29 September 2006, the Group raised EUR400 million (prior to issuance costs) through the issue by National Capital Instruments Euro LLC 2 of 8,000 National Capital Instruments (Euro NCI). On 29 September 2016, with the prior consent of APRA, the Group fully redeemed at its option the Euro NCIs.

Capital Notes

On 24 September 2016, with the prior consent of APRA, the Group redeemed at its option US\$600 million hybrid Tier 1 capital notes, which were issued in 2009 by the Company, acting through its New York branch.

Convertible Preference Shares

On 20 March 2013, the Group issued \$1.51 billion of convertible preference shares (NAB CPS) and on 17 December 2013, the Group issued \$1.72 billion of convertible preference shares (NAB CPS II). The convertible preference shares will mandatorily convert into ordinary shares on the mandatory conversion dates, 22 March 2021 (NAB CPS) and 19 December 2022 (NAB CPS II). With prior written approval from APRA, the Company has the option to convert, redeem or resell NAB CPS on 20 March 2019 and NAB CPS II on 17 December 2020 or on the occurrence of particular events, provided certain conditions are met. NAB CPS and NAB CPS II may also convert in certain circumstances if required by prudential regulatory requirements. Interest on both issuances is payable quarterly in arrears at a rate of 3.20% per annum above the 90 days BBSW for NAB CPS and 3.25% per annum above the 90 day BBSW for NAB CPS II. Both issuances have supported the Group's Tier 1 capital position.

Convertible Notes

On 23 March 2015, the Group issued \$1.34 billion of convertible notes (NAB Capital Notes). The convertible notes will mandatorily convert into ordinary shares on the mandatory conversion date, 23 March 2022 subject to certain conversion conditions being satisfied. With prior written approval from APRA, the Company has the option to convert, redeem or resell the convertible notes on 23 March 2020, or earlier following the occurrence of certain events. NAB Capital Notes may also convert in certain circumstances if required by prudential regulatory requirements. Distributions are payable quarterly in arrears at a rate of 3.50% per annum above the 90 day BBSW. The issuance has supported the Group's Tier 1 capital position.

On 7 July 2016, the Group issued approximately \$1.5 billion of convertible notes (NAB Capital Notes 2). The convertible notes will mandatorily convert into ordinary shares on the mandatory conversion date, 8 July 2024, subject to certain conversion conditions being satisfied. With prior written approval from APRA, the Company has the option to convert, redeem or resell the convertible notes on 7 July 2022, or earlier following the occurrence of certain events. NAB Capital Notes 2 may also convert in certain circumstances if required by prudential regulatory requirements. Distributions are payable quarterly in arrears at a rate of 4.95% per annum above the 90 day BBSW. The issuance has supported the Group's Tier 1 capital position.

Notes to the financial statements

Other assets and liabilities

20 Property, plant and equipment

Plant and equipment carried under cost model

Items of plant and equipment are carried at cost less accumulated depreciation and any impairment losses. The cost of plant and equipment includes an obligation for removal of the asset or restoration of the site where such an obligation exists and if that cost can be reliably estimated.

With the exception of freehold land, all items of property, plant and equipment are depreciated using the straight-line method at rates appropriate to their estimated useful life to the Group. For major classes of property, plant and equipment, the annual rates of depreciation are:

- Buildings - 3.3%
- Furniture, fixtures and fittings and other equipment - from 10% to 20%
- Motor vehicles - 20%
- Personal computers - 33.3%
- Other data processing equipment - from 20% to 33.3%
- Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful lives and the remaining expected term of the lease

Assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

Land and buildings carried under revaluation model

Land and buildings are measured at fair value and are revalued on a rolling three year cycle, effective 31 July, by directors to reflect fair values.

Directors' valuations are based on advice received from independent valuers. Such valuations are performed on an open market basis, being the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Newly acquired property assets are held at cost (i.e. equivalent to fair value due to their recent acquisition) until the time of the next annual review, a period not exceeding 12 months. The fair value of the land and buildings of \$133 million (2015: \$152 million) as at the reporting date was determined using the valuation approach including adjustments to observable market inputs reflecting any specific characteristics of the land and buildings (Level 3 of the fair value hierarchy as defined in *Note 34 - Fair value of financial instruments*).

There has been no change to the valuation technique during the year. There were no transfers between Level 1, 2 and 3 during the year.

Revaluation increments are credited directly to the asset revaluation reserve, net of tax. However, the increment is recognised in the income statement to the extent it reverses a revaluation decrement previously recognised as an expense for a specific asset. Revaluation decrements are charged against the asset revaluation reserve to the extent that they reverse previous revaluation increments for a specific asset. Any excess is recognised as an expense in the income statement. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

Gains or losses on the disposal of property, plant and equipment, which are determined as the difference between the net sale proceeds, if any, and the carrying amount at the time of disposal are included in the income statement. Any realised amount in the asset revaluation reserve (i.e. for assets carried under the revaluation model) are transferred directly to retained profits.

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Land and buildings	133	152	-	-
Leasehold improvements	464	659	4	6
Furniture, fixtures and fittings and other equipment	289	350	21	18
Data processing equipment	537	571	495	500
Leased assets held as lessor	-	9	-	9
Total property, plant and equipment	1,423	1,741	520	533
At cost	3,415	3,942	1,666	1,690
Deduct: Accumulated depreciation and amortisation	(1,992)	(2,201)	(1,146)	(1,157)
Total property, plant and equipment	1,423	1,741	520	533

Notes to the financial statements

Other assets and liabilities (continued)

21 Goodwill and other intangible assets

Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the aggregate of the fair value of the purchase consideration and the amount of any non-controlling interest in the entity over the fair value of the identifiable net assets at the date of the acquisition. If the fair value of the identifiable net assets of the acquired entity is greater than the aggregate of the fair value of the purchase consideration and amount of any non-controlling interest, the excess is recognised in the income statement on acquisition date and no goodwill is recognised.

Software Costs

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised and recognised as an intangible asset where the software is controlled by the Group, and where it is probable that future economic benefits will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred.

Computer software and other intangible assets are stated at cost less amortisation and impairment losses, if any.

Capitalised software costs and other intangible assets are amortised on a systematic basis, using the straight-line method over their expected useful lives which are between three and ten years.

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Goodwill	2,913	4,631	-	-
Internally generated software	2,207	2,457	1,971	1,702
Acquired software	137	148	115	153
Other acquired intangible assets ⁽¹⁾	45	111	7	-
Goodwill and other intangibles	5,302	7,347	2,093	1,855
At cost	7,809	10,019	3,775	3,317
Deduct: Accumulated amortisation / Impairment losses	(2,507)	(2,672)	(1,682)	(1,462)
Goodwill and other intangibles	5,302	7,347	2,093	1,855

⁽¹⁾ Other acquired intangible assets include core deposit intangibles, mortgage servicing rights, brand names and the value of business and contracts in force.

Reconciliation of movements in goodwill and other intangible assets

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Goodwill				
Balance at beginning of year	4,631	5,394	-	-
Derecognised in respect of the disposal group ⁽¹⁾	-	(945)	-	-
Additions from the acquisition of controlled entities and business combinations	-	20	-	-
Disposals from sale of controlled entities ⁽²⁾	(1,713)	(4)	-	-
Foreign currency translation adjustments	(5)	166	-	-
Balance at end of year	2,913	4,631	-	-
Internally generated software				
Balance at beginning of year	2,457	1,945	1,702	1,389
Additions from internal development	655	767	471	480
Disposals, impairments and write-offs ⁽³⁾	(674)	(36)	(10)	(33)
Amortisation	(273)	(277)	(192)	(134)
Foreign currency translation adjustments	42	58	-	-
Balance at end of year	2,207	2,457	1,971	1,702

⁽¹⁾ Includes discontinued operations of GWB. Refer to Note 41 - Discontinued operations for further details.

⁽²⁾ Includes discontinued operations of NAB Wealth's life insurance business. Refer to Note 41 - Discontinued operations for further details.

⁽³⁾ Includes discontinued operations of CYBG. Refer to Note 41 - Discontinued operations for further details.

Impairment and cash generating units

Assets with an indefinite useful life, including goodwill, are not subject to amortisation and are tested on an annual basis for impairment, and additionally whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which that asset belongs. For the purpose of undertaking impairment testing, cash generating units (CGUs) are identified and determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill impairment is assessed at the group of

Notes to the financial statements

Other assets and liabilities (continued)

CGUs that represents the lowest level within the Group at which goodwill is maintained for internal management purposes, which is at the segment level.

Impairment testing compares the carrying value of a CGU with its recoverable amount as determined using a value in use calculation. An impairment loss is recognised in the income statement if the carrying amount of the CGU or group of units is greater than its recoverable amount. Impairment losses recognised for goodwill are not subsequently reversed.

Assumptions for determining the recoverable amount of each CGU are based on past experience and expectations for the future. Cash flow projections are based on five year management approved forecasts which are then extrapolated using a constant growth rate for up to a further five years. In the final year a terminal growth rate is applied in perpetuity. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each CGU.

The discount rate reflects the market determined, risk-adjusted, post-tax discount rate and is adjusted for specific risks relating to the CGUs and the countries in which they operate. Terminal value growth rate represents the growth rate applied to extrapolate cash flows beyond the forecast period. These growth rates are based on forecast assumptions of the CGUs' long-term performance in their respective markets.

The key assumptions used in determining the recoverable amount of CGUs, to which goodwill has been allocated, are as follows:

Reportable segments	Goodwill		Discount rate per annum		Terminal value growth rate per annum	
	2016	2015	2016	2015	2016	2015
	\$m	\$m	%	%	%	%
Australian Banking	279	279	10.7	10.7	4.8	6.0
NZ Banking	258	258	11.2	11.1	4.4	4.4
NAB Wealth ⁽¹⁾	2,376	4,094	10.1	11.3	3.8	5.0
Total goodwill	2,913	4,631	n/a	n/a	n/a	n/a

⁽¹⁾ The September 2016 balance reflects the sale of 80% of NAB Wealth's life insurance business. Refer to Note 41 - Discontinued operations for further details.

22 Other assets

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Cash collateral placed with third parties	3,176	4,703	3,176	4,703
Accrued interest receivable	2,141	2,899	2,002	2,272
Prepayments	189	258	155	147
Receivables	596	546	243	322
Other debt instruments at amortised cost	778	618	1	10
Equity instruments at fair value through other comprehensive income ⁽¹⁾	273	556	240	510
Investment in associates - MLC Limited ⁽²⁾	550	-	-	-
Receivable - MLC Limited ⁽³⁾	2,206	-	2,206	-
Other ⁽⁴⁾	3,167	3,338	2,658	1,868
Total other assets	13,076	12,918	10,681	9,832

⁽¹⁾ Equity instruments at fair value through other comprehensive income largely comprises unlisted equity investments. Accordingly, the fair value amounts as at the reporting date have been determined based upon mostly unobservable inputs and are categorised as Level 3 in the fair value hierarchy (as defined in Note 34 - Fair value of financial instruments).

⁽²⁾ NAB has retained a 20% interest in MLC Limited following the sale of 80% of that company to Nippon Life. Refer to Note 41 - Discontinued operations for further information.

⁽³⁾ The balance represents the outstanding cash consideration at 30 September 2016 for the transaction outlined in footnote 2 above. This amount was settled on 3 October 2016. Refer to Note 41 - Discontinued operations for further information.

⁽⁴⁾ Other includes receivables relating to settlements clearing, current tax assets, other life insurance assets and investment properties carried at fair value. The fair value of investment properties was determined by an independent valuer and was categorised as level 3 in the fair value hierarchy (as defined in Note 34 - Fair value of financial instruments).

Notes to the financial statements

Other assets and liabilities (continued)

23 Provisions

Provisions are recognised when a legal or constructive obligation exists as a result of a past event, it is probable that an outflow of economic benefits will be necessary to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are not discounted to the present value of their expected net future cash flows except where the time value of money is material.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless the likelihood of payment is remote. Refer to *Note 31 - Contingent liabilities and credit commitments*.

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Employee entitlements	1,024	1,119	821	829
Operational risk event losses	12	2,177	5	21
Restructuring	25	56	23	25
Other	371	223	308	42
Total provisions	1,432	3,575	1,157	917

Employee entitlements

Refer to *Note 5 - Operating expenses* for a description of the Group's policies for recognition of employee entitlements.

Operational risk event losses

Provisions for operational risk event losses are raised for non-lending losses which include losses arising from specific legal actions not directly related to amounts of principal outstanding for loans and advances, and losses arising from forgeries, frauds and the correction of operational issues.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

Reconciliation of movements in provision

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Operational risk event losses⁽¹⁾				
Balance at beginning of year	2,177	1,775	21	30
Provisions made	840	1,146	833	41
Payments out of provisions	(819)	(1,027)	(819)	(49)
Provisions no longer required and net foreign currency movements ⁽²⁾	(2,186)	283	(30)	(1)
Balance at end of year	12	2,177	5	21

⁽¹⁾ Operational risk event losses includes claims pursuant to the Conduct Indemnity Deed. Refer to *Note 31 - Contingent liabilities and credit commitments* for further details.

⁽²⁾ The Group 2016 reconciliation items disclosed as "Provisions no longer required and net foreign currency movements" includes primarily provisions deconsolidated as part of the CYBG demerger.

Restructuring costs

Provisions for restructuring costs include provisions for costs incurred but not yet paid and future costs that will arise as a direct consequence of decisions already made. A provision for restructuring costs is only made where the Group has made a commitment and entered into an obligation such that the Group has no realistic alternative but to carry out the restructure and make future payments to settle the obligation. A provision for restructuring costs is only recognised when a detailed plan has been approved and the restructuring has either commenced or has been publicly announced. This includes the cost of staff termination benefits and surplus lease space. Costs related to ongoing activities and future operating losses are not provided for.

24 Other liabilities

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Accrued interest payable	3,281	4,147	2,988	3,231
Payables and accrued expenses	2,192	1,902	1,751	933
Notes in circulation	-	3,874	-	-
Cash collateral received from third parties	1,311	1,950	1,309	1,947
Other ⁽¹⁾	1,864	2,894	1,752	2,267
Total other liabilities	8,648	14,767	7,800	8,378

⁽¹⁾ Other includes payables relating to settlements clearing, liability on acceptances, defined benefit superannuation plan liabilities and other life insurance liabilities. As a result of the sale of 80% of NAB Wealth's life insurance business to Nippon Life, NAB will no longer have any life insurance liabilities.

Notes to the financial statements

Capital Management

25 Contributed equity

In accordance with the *Corporations Act 2001* (Cth), the Company does not have authorised capital and all ordinary shares have no par value. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are included within equity. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held at shareholders' meetings. In the event of a winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any residual proceeds of liquidation.

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Issued and paid-up ordinary share capital				
Ordinary shares, fully paid	30,968	31,334	30,182	32,065
Other contributed equity				
National Income Securities	1,945	1,945	1,945	1,945
Trust Preferred Securities	975	975	-	-
National Capital Instruments	397	397	397	397
Total contributed equity	34,285	34,651	32,524	34,407

Ordinary Shares

Reconciliation of movement in contributed equity

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Ordinary share capital				
Balance at beginning of year	31,334	24,049	32,065	24,500
Shares issued:				
Dividend reinvestment plan (DRP)	596	1,137	596	1,137
DRP underwritten allotments	-	800	-	800
Rights Issue	-	5,446	-	5,446
Transfer from equity-based compensation reserve	166	182	166	182
Capital distribution on CYBG demerger ⁽¹⁾	(2,645)	-	(2,645)	-
Treasury shares sold / (purchased) relating to NAB Wealth's life insurance business ⁽²⁾	1,517	(280)	-	-
Balance at end of year	30,968	31,334	30,182	32,065

⁽¹⁾ Refer to Note 41 - Discontinued operations for further details.

⁽²⁾ Relates to shares in NAB previously held by NAB Wealth's life insurance business which are no longer held by a controlled entity of the Group. Refer to Note 41 - Discontinued operations for further details.

The number of ordinary shares on issue for the last two years at 30 September was as follows:

	Company	
	2016	2015
	No. '000	No. '000
Ordinary shares, fully paid		
Balance at beginning of year	2,625,764	2,365,791
Shares issued:		
Rights issue	-	193,912
Dividend reinvestment plan (DRP)	21,325	35,057
DRP underwritten allotments	-	24,603
Bonus share plan	2,052	2,095
Employee share plans	7,461	3,540
Performance options and performance rights	359	761
Paying up of partly paid shares	15	5
Total ordinary shares, fully paid	2,656,976	2,625,764
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	64	69
Paying up of partly paid shares	(15)	(5)
Total ordinary shares, partly paid to 25 cents	49	64
Total number of ordinary shares on issue at end of year (including treasury shares)	2,657,025	2,625,828
Deduct: Treasury shares	(9,504)	(62,955)
Total number of ordinary shares on issue at end of year (excluding treasury shares)	2,647,521	2,562,873

Notes to the financial statements

Capital Management (continued)

Treasury shares

If a controlled entity acquires shares in the Company (treasury shares), the cost of the acquired shares is recognised as a deduction from issued capital. Dividends on treasury shares are not credited to income, but eliminated on consolidation. Gains and losses on the sale of treasury shares are accounted for as adjustments to issued capital and not as part of income.

As a result of the Successor Fund Merger, all treasury shares which were previously held by NAB Wealth's life insurance business were deconsolidated from the Group's balance sheet effective 1 July 2016. Additionally, shares held in trust by a controlled entity of the Group to meet the requirements of employee incentive schemes, are accounted for as treasury shares.

National Income Securities

On 29 June 1999, the Company issued 20,000,000 National Income Securities (NIS) at \$100 each. These securities are stapled securities, comprising one fully paid note of \$100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (NIS preference share). The amount unpaid on a NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the Australian 90 day bank bill rate plus 1.25% per annum, payable quarterly in arrears.

With the prior written consent of APRA, the Company may redeem each note for \$100 (plus any accrued distributions) and buy back or cancel the NIS preference share stapled to the note for no consideration. NIS have no maturity date and are quoted on the Australian Securities Exchange (ASX).

Trust Preferred Securities

On 29 September 2003, the Group raised GBP400 million through the issue by National Capital Trust I, of 400,000 Trust Preferred Securities at GBP1,000 each, to be used by the Company's London branch. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until 17 December 2018, equal to 5.62% per annum and, in respect of each five year period after that date, a non-cumulative distribution payable semi-annually in arrears at a rate equal to the sum of the yield to maturity of the five year benchmark UK Government bond at the start of that period plus 1.93%.

With the prior written consent of APRA, the Trust Preferred Securities may be redeemed on 17 December 2018 and on every subsequent fifth anniversary. In this case, the redemption price is GBP1,000 per Trust Preferred Security plus the unpaid distributions for the last six month distribution period. The Trust Preferred Securities may also be redeemed earlier in certain circumstances, in which case the redemption price will, in some cases, be subject to a make-whole adjustment for the costs of reinvestment as a result of the early redemption.

National Capital Instruments

On 18 September 2006, the Group raised \$400 million (prior to issuance costs) through the issue by National Capital Trust III of 8,000 National Capital Instruments (Australian NCIs) at \$50,000 each. Each Australian NCI earned a non-cumulative distribution, payable quarterly in arrears at a rate equal to the bank bill rate plus a margin of 0.95% per annum until the first optional redemption date. On 4 October 2016, with the prior consent of APRA, the Group at its option, fully redeemed the Australian NCIs.

Notes to the financial statements

Capital Management (continued)

26 Reserves

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Foreign currency translation reserve	(71)	(1,091)	(209)	(160)
Asset revaluation reserve	83	75	-	-
Cash flow hedge reserve	143	110	57	(8)
Equity-based compensation reserve	234	204	234	204
General reserve for credit losses	75	64	75	64
Debt instruments at fair value through other comprehensive income reserve	80	56	80	32
Equity instruments at fair value through other comprehensive income reserve	85	220	72	208
Total reserves	629	(362)	309	340

Foreign currency translation reserve

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Foreign currency translation reserve				
Balance at beginning of year	(1,091)	(1,936)	(160)	(185)
Currency translation adjustments	(329)	1,067	(49)	25
Attributable to non-controlling interest	-	(166)	-	-
Released on divestment of discontinued operation ⁽¹⁾	1,368	(46)	-	-
Tax on foreign currency translation reserve	(19)	(10)	-	-
Balance at end of year	(71)	(1,091)	(209)	(160)

⁽¹⁾ Refer to Note 41 - Discontinued operations for further details.

The results and financial position of all Group entities that have a functional currency different from the Australian dollar are translated into Australian dollars as follows:

- Assets and liabilities are translated at the closing rate at the date of the balance sheet.
- Income and expenses are translated at average exchange rates for the period, unless the average is not a reasonable approximation.
- All resulting exchange differences are recognised in the foreign currency translation reserve.

The foreign currency translation reserve records foreign currency differences arising from the translation of foreign operations, the translation of transactions that hedge the NAB's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a foreign operation.

When a foreign operation is disposed of, any such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Asset revaluation reserve

The asset revaluation reserve records revaluation increments and decrements arising from the revaluation of land and buildings.

Cash flow hedge reserve

The cash flow hedge reserve records the effective portion of changes in the fair valuation of derivatives designated as cash flow hedging instruments.

Equity-based compensation reserve

The equity-based compensation reserve records the value of equity benefits provided to employees as part of their remuneration.

Share capital tainting rules contained in Australian tax legislation apply prospectively from 26 May 2006 to discourage companies from distributing profits to shareholders as preferentially taxed capital rather than dividends. The focus of the tax legislation is on the transfer of amounts to a share capital account from another account. The tainting rules are inconsistent with AASB 2 'Share-based Payment' which allows transfers between equity accounts upon the vesting of employee equity-based payments (i.e. when all conditions have been met by the employee).

During 2009, the Group received a private binding ruling from the Australian Taxation Office on this matter. The ruling allows, under certain circumstances, vested employee shares to be reversed from the equity-based compensation reserve and ultimately recorded in paid-up capital without giving rise to a tainting of the NAB's share capital account for tax purposes. The share capital tainting rules and private binding ruling have no impact on the regulatory capital of the Group.

General reserve for credit losses

APRA Prudential Standard APS 220 'Credit Quality' requires a reserve to be held to cover credit losses estimated but not certain to arise in the future over the full life of all individual facilities. The general reserve for credit losses represents an appropriation of retained profits to non-distributable reserves.

Notes to the financial statements

Capital Management (continued)

Debt instruments at fair value through other comprehensive income reserve

Debt instruments at fair value through other comprehensive income reserve includes all changes in the fair value of investments in debt instruments except for impairment based on the three-stage expected credit loss model, foreign exchange gains and losses and interest income. The changes recognised in reserve are transferred to profit or loss when the asset is derecognised or impaired.

Equity instruments at fair value through other comprehensive income reserve

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

27 Retained profits

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Balance at beginning of year	21,205	20,377	20,470	19,530
Restated for adoption of new accounting standards	-	(465)	-	(262)
Actuarial gains / (losses) on defined benefit superannuation plans	31	(79)	-	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	(113)	165	(131)	52
Tax on items taken directly (from) / to equity	(10)	(15)	-	-
Net profit attributable to owners of NAB from continuing operations	6,420	6,800	519	5,940
Net (loss) attributable to owners of NAB from discontinued operations	(6,068)	(462)	-	-
Transfer from equity instruments at FVOCI reserve	94	-	94	-
Transfer (to) / from general reserve for credit losses	(11)	(49)	(11)	(49)
Transfer from asset revaluation reserve	1	1	-	-
Transfer of options and rights lapsed from equity-based compensation reserve	7	11	7	11
Dividends paid	(5,060)	(4,573)	(5,161)	(4,670)
Distributions on other equity instruments	(124)	(175)	(68)	(74)
Gains / (losses) on disposal of interest in subsidiary ⁽¹⁾	6	(323)	-	-
Reclassification of Trust Preferred Securities II transaction costs	-	(8)	-	(8)
Balance at end of year	16,378	21,205	15,719	20,470

⁽¹⁾ Represents gains / (losses) from discontinued operations recognised directly in retained profits. Refer Note 41 - Discontinued operations for further details.

Notes to the financial statements

Capital Management (continued)

28 Dividends and distributions

Dividends on ordinary shares recognised by the Group and Company for the year ended 30 September:

	Amount per share cents	Total amount \$m
2016		
Final dividend declared in respect of the year ended 30 September 2015	99	2,600
Interim dividend declared in respect of the year ended 30 September 2016	99	2,618
Deduct: Bonus shares in lieu of dividend	n/a	(57)
Dividends paid by the Company during the year ended 30 September 2016		5,161
Deduct: Dividends on treasury shares ⁽¹⁾		(101)
Add: Dividends paid to non-controlling interests in controlled entities		5
Total dividends paid by the Group during the year ended 30 September 2016		5,065

⁽¹⁾ Excludes any Treasury Shares held in trust by a controlled entity of the Group in respect of employee incentive schemes.

2015		
Final dividend declared in respect of the year ended 30 September 2014	99	2,343
Interim dividend declared in respect of the year ended 30 September 2015	99	2,397
Deduct: Bonus shares in lieu of dividend	n/a	(70)
Dividends paid by the Company during the year ended 30 September 2015		4,670
Deduct: Dividends on treasury shares ⁽¹⁾		(97)
Add: Dividends paid to non-controlling interests in controlled entities ⁽²⁾		13
Total dividends paid by the Group during the year ended 30 September 2015		4,586

⁽¹⁾ Excludes any Treasury Shares held in trust by a controlled entity of the Group in respect of employee incentive schemes.

⁽²⁾ 2015 comparative includes dividends paid to non-controlling interest in GWB of \$9 million up to the date of disposal.

Franked dividends declared or paid during the year were fully franked at a tax rate of 30% (2015: 30%).

In addition, the CYBG demerger resulted in the distribution of CYBG shares valued at \$2,645 million to NAB shareholders.

Final dividend

On 27 October 2016, the directors declared the following dividend:

	Amount per share cents	Total amount \$m	Franked amount per share %
Final dividend declared in respect of the year ended 30 September 2016	99	2,630	100

The final 2016 ordinary dividend is payable on 13 December 2016. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2016 and will be recognised in subsequent financial reports.

Australian franking credits

The franking credits available to the Group at 30 September 2016, after allowing for Australian tax payable in respect of the current reporting period's profit and the receipt of dividends recognised as a receivable at reporting date, are estimated to be \$1,476 million (2015: \$1,563 million). Franking credits to be utilised as a result of the payment of the proposed final dividend are \$1,127 million (2015: \$1,114 million). The extent to which future dividends will be franked will depend on a number of factors including the level of the profits that will be subject to Australian income tax.

New Zealand imputation credits

The Company is able to attach available New Zealand imputation credits to dividends paid. As a result, New Zealand imputation credits of NZ\$0.07 per share will be attached to the final 2016 ordinary dividend payable by the Company. New Zealand imputation credits are only relevant for shareholders who are required to file New Zealand income tax returns.

Distributions on other equity instruments

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
National Income Securities	68	74	68	74
Trust Preferred Securities ⁽¹⁾	43	44	-	-
Trust Preferred Securities II ^{(1) (2)}	-	43	-	-
National Capital Instruments	13	14	-	-
Total distributions on other equity instruments	124	175	68	74

⁽¹⁾ \$A Equivalent.

⁽²⁾ Trust Preferred Securities II were redeemed on 23 March 2015.

Notes to the financial statements

Cash flow information

29 Notes to the cash flow statements

(a) Reconciliation of net profit attributable to owners of NAB to net cash provided by operating activities

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Net profit attributable to owners of NAB	352	6,338	519	5,940
Add / (deduct) non-cash items in the income statement:				
Decrease in interest receivable	146	185	249	113
Decrease in interest payable	(607)	(539)	(202)	(388)
Decrease in unearned income and deferred net fee income	(209)	(294)	(178)	(265)
Fair value movements on assets, liabilities and derivatives held at fair value	(4,233)	699	(3,159)	(1,142)
(Decrease) / increase in personnel provisions	(96)	19	(1)	92
(Decrease) / increase in other operating provisions	(547)	232	345	4
Equity-based compensation recognised in equity or reserves	203	120	203	120
Superannuation costs - defined benefit plans	23	20	-	-
Impairment losses on non-financial assets	5	79	359	53
Charge to provide for bad and doubtful debts	883	862	702	604
Loss on disposal of loans and advances	-	40	-	40
Depreciation and amortisation expense	679	764	369	288
Movement in life insurance policyholder liabilities	1,868	4,626	-	-
Unrealised gain on investments relating to life insurance business	(1,446)	(1,902)	-	-
Decrease in other assets	111	924	425	644
Decrease in other liabilities	(645)	(310)	(645)	(194)
(Decrease) / increase in income tax payable	(480)	511	(745)	420
Decrease / (increase) in deferred tax assets	113	(85)	(155)	66
(Decrease) / increase in deferred tax liabilities	(269)	(79)	69	102
Operating cash flow items not included in profit	14,781	(25,315)	10,196	(9,539)
Investing or financing cash flows included in profit				
Loss on sale of controlled entities	5,555	83	4,923	279
Gain on investments classified as debt instruments at fair value through other comprehensive income	-	(74)	-	(74)
Loss / (gain) on sale of property, plant, equipment and other assets	8	6	1	(2)
Net cash provided by / (used in) operating activities	16,195	(13,090)	13,275	(2,839)

(b) Reconciliation of cash and cash equivalents

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

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

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Cash and cash equivalents				
Assets				
Cash and liquid assets	30,630	30,934	28,717	24,308
Treasury and other eligible bills	574	1,371	-	-
Due from other banks (excluding mandatory deposits with supervisory central banks)	37,349	40,775	35,472	27,973
Total cash and cash equivalent assets	68,553	73,080	64,189	52,281
Liabilities				
Due to other banks	(40,593)	(52,552)	(39,339)	(50,311)
Total cash and cash equivalents	27,960	20,528	24,850	1,970

Prior period cash and liquid assets included cash and liquid assets within NAB Wealth's life insurance business statutory funds (September 2016 nil, September 2015 \$2,453 million) which were subject to restrictions imposed under the *Life Insurance Act 1995* (Cth) and other restrictions and therefore were not available for use in operating, investing or financing activities of other parts of the Group.

Included within due from other banks is the cash deposit of \$1,175 million (£691 million) held with The Bank of England in connection with the CYBG demerger, that is required to collateralise NAB's obligations under the Capped Indemnity as agreed with the United Kingdom Prudential Regulation Authority (PRA).

(c) Non-cash financing and investing activities

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
New share issues				
Dividend reinvestment plan	596	1,137	596	1,137

Notes to the financial statements

Group structure

30 Interest in subsidiaries and other entities

The consolidated financial report comprises the financial report of the Company and its controlled entities. Controlled entities are all those entities (including structured entities) over which the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An assessment of control is performed on an ongoing basis. Entities are consolidated from the date on which control is transferred to the Group. Entities are deconsolidated from the date that control ceases. The effects of transactions between entities within the Group are eliminated in full upon consolidation. External interest in the equity and results of the entities that are controlled by the Group are shown as non-controlling interests in controlled entities in the equity section of the consolidated balance sheet.

Investments in controlled entities are recorded at cost less any provision for impairment in the financial statements of the Company.

	Group		Company	
	2016	2015	2016 ⁽¹⁾	2015
	\$m	\$m	\$m	\$m
Gross carrying amount	-	-	10,771	20,605
Deduct: Provision for diminution in value	-	-	(1,278)	(171)
Total investments in controlled entities	-	-	9,493	20,434

⁽¹⁾ The Group lost control of CYBG and NAB Wealth's life insurance business in 2016. Refer to Note 41 - Discontinued operations for further details.

The following table presents the material controlled entities of the Group as at 30 September 2016 and 30 September 2015. Investment vehicles holding life policyholder assets are excluded from the list below.

Entity name	Ownership %	Incorporated / formed in
National Australia Bank Limited		Australia
National Equities Limited ^{(1) (2)}	100	Australia
National Australia Group (NZ) Limited	100	New Zealand
Bank of New Zealand	100	New Zealand
BNZ International Funding Limited	100	New Zealand
National Wealth Management Holdings Limited	100	Australia
National Australia Financial Management Limited	100	Australia
MLC Holdings Limited ⁽³⁾	100	Australia
MLC Investments Limited	100	Australia
NBA Properties Limited ⁽¹⁾	100	Australia

⁽¹⁾ These controlled entities and NAB Properties Australia Limited have entered into a deed of cross guarantee with the Company and National Australia Trustees Limited as trustees pursuant to ASIC Class Order 98/1418 dated 13 August 1998. These controlled entities and the Company form a closed group (a closed group is defined as a group of entities comprising a holding entity and its related wholly owned entities). Relief was granted to these controlled entities from then Corporations Act 2001 (Cth) requirements for preparation, audit and publication of an annual financial report. Refer to Note 31 (d) - Contingent liabilities and credit commitment for details.

⁽²⁾ On 8 February 2016, the Group lost control of CYBG - Refer to Note 41 - Discontinued operations for further details.

⁽³⁾ On 30 September 2016, the Group lost control of NAB Wealth's life insurance business. Refer to Note 41 - Discontinued operations for further details.

Significant restrictions

Subsidiary companies that are subject to prudential regulation are required to maintain minimum capital and other regulatory requirements that may restrict the ability of these entities to make distributions of cash or other assets to the parent company. These restrictions are managed in accordance with the Group's normal risk management policies set out in Note 33 - Financial risk management and capital adequacy requirements in Note 40 - Capital adequacy.

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities generally have restricted activities and a narrow and well defined objective which are created through contractual arrangements.

Depending on the Group's power over the relevant activities of the structured entity and its exposure to and ability to influence its own returns, it may or may not consolidate the entity.

Notes to the financial statements

Group structure (continued)

(a) Consolidated structured entities

The Group has interests in the following types of consolidated structured entities:

Securitisation

The Group engages in securitisation activities for funding and liquidity purposes. The Group principally packages and sells residential mortgage loans as securities to investors through a series of securitisation vehicles. The Group is entitled to any residual income after all payments to investors and costs related to the program have been met. The note holders only have recourse to the pool of assets. The Group is considered to hold the majority of the residual risks and benefits of the vehicles. All relevant financial assets continue to be held on the Group balance sheet, and a liability is recognised for the proceeds of the funding transaction.

In addition to its loan securitisation program, the Group has various contractual relationships with entities that undertake securitisation of third party assets. The Group sponsors, manages and provides liquidity facilities and derivative contracts to these securitisation conduits.

The Group provides liquidity facilities to the securitisation vehicles. The facilities can only be drawn to manage the timing mismatch of cash inflows from securitised loans and cash outflows due to investors. The liquidity facility limit as at 30 September 2016 is \$1,632 million.

Pursuant to ASIC instrument 15-0330 dated 29 May 2015, the Company is relieved from this requirement in respect of certain securitisation structured entities to which the Group provides funding to and which are consolidated by the Company. With respect to each securitisation structured entity, relief is granted until 30 September 2018. Each securitisation structured entity prepares an audited financial report following its year end and in accordance with its transaction documents.

Covered bonds

The Group issues covered bonds for funding purposes. Housing loans are assigned to a bankruptcy remote structured entity to provide security for the obligations payable on the covered bonds issued by the Group. Similar to securitisation programs, the Group is entitled to any residual income after all payments due to covered bonds investors and costs related to the program have been met. The covered bond holders have dual recourse to the Group and the cover pool assets.

(b) Unconsolidated structured entities

Unconsolidated structured entities refer to all structured entities that are not controlled by the Group. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions or for specific investment opportunities.

Interests in unconsolidated structured entities include, but are not limited to, debt and equity investments, guarantees, liquidity arrangements, commitments, fees from investment structures, and derivative instruments that expose the Group to the risks of the unconsolidated structured entity. Interests do not include plain vanilla derivatives (e.g. interest rate swaps and cross currency swaps) and positions where the Group:

- Creates rather than absorbs variability of the unconsolidated structured entity.
- Provides administrative, trustee or other services as agent to third party managed structured entities.

Involvement is considered on a case by case basis, taking into account the nature of the structured entity's activity. This excludes involvements that exist only because of typical customer-supplier relationships.

Securitisation

The Group engages with third party (client) securitisation vehicles by providing warehouse facilities, liquidity support and derivatives. The Group invests in residential mortgage and asset-backed securities.

Other financing

The Group provides tailored lending to limited recourse single purpose vehicles which are established to facilitate asset financing for clients. The assets are pledged as collateral to the Group. The Group engages in raising finance for leasing assets such as aircraft, trains, shipping vessels and other infrastructure assets. The Group may act as a lender, arranger or derivative counterparty to these vehicles.

Other financing transactions are generally senior, secured self-liquidating facilities in compliance with Group credit lending policies. Regular credit and financial reviews of the borrowers are conducted to ensure collateral is sufficient to support the Group's maximum exposures.

Investment funds

The Group has direct interests in unconsolidated investment funds. The Group's interests include holding units, receiving fees for services, and providing investment commitments. The Group's interest in unconsolidated investment funds is immaterial.

Notes to the financial statements

Group structure (continued)

The table below shows the carrying value and maximum exposure to loss of the Group's interests in unconsolidated structured entities.

	2016			2015		
	Securitisations \$m	Other financing \$m	Total \$m	Securitisations \$m	Other financing \$m	Total \$m
Trading securities	610	-	610	881	-	881
Other financial assets at fair value	271	-	271	590	-	590
Loans and advances	8,513	3,707	12,220	4,903	2,853	7,756
Debt instruments through fair value through other comprehensive income	8,218	-	8,218	8,387	-	8,387
Total carrying value of assets in unconsolidated structured entities	17,612	3,707	21,319	14,761	2,853	17,614
Commitment / Contingencies	3,396	1,223	4,619	3,272	871	4,143
Total maximum exposure to loss in unconsolidated structured entities	21,008	4,930	25,938	18,033	3,724	21,757

The total assets of unconsolidated structured entities are not considered meaningful for the purpose of understanding the Group's financial risks associated with these entities and so have not been presented. Unless specified otherwise, the Group's maximum exposure to loss is the total of its on-balance sheet positions and its off-balance sheet arrangements, being loan commitments, financial guarantees, and liquidity support. Exposure to loss is managed as part of the enterprise Group-wide risk management framework. Refer to *Note 33 - Financial risk management* for further details. Income earned from interests in unconsolidated structured entities primarily result from interest income, mark-to-market movements and fees and commissions.

The majority of the Group's exposures are senior investment grade, but in some limited cases, the Group may be required to absorb losses from unconsolidated structured entities before other parties because the Group's interests are subordinated to others in the ownership structure. The table below shows the credit quality of the Group's exposures in unconsolidated structured entities:

	2016			2015		
	Securitisations \$m	Other financing \$m	Total \$m	Securitisations \$m	Other financing \$m	Total \$m
Senior investment grade	17,158	1,212	18,370	14,371	686	15,057
Investment grade	428	2,044	2,472	387	1,681	2,068
Sub-investment grade	26	451	477	3	486	489
Total ⁽¹⁾	17,612	3,707	21,319	14,761	2,853	17,614

⁽¹⁾ Of the total, \$21,293 million (2015: \$17,590 million) represents Group's interest in senior notes and \$26 million in subordinated notes (2015: \$24 million).

Investment in Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. The Group's investments in associates are accounted for using the equity method.

On 30 September 2016, the Group lost control of MLC Limited in line with the sale of 80% of the shares in MLC Limited, a previously wholly owned subsidiary. Refer to *Note 41 - Discontinued operations* for further details.

The retained investment of 20% of the shares in MLC Limited is accounted for using the equity method and is the Group's only material investment in an associate (none in the prior period) and is included on the balance sheet as part of Other Assets. Refer to *Note 22 - Other assets*.

Notes to the financial statements

Unrecognised items

31 Contingent liabilities and credit commitments

(a) Financial assets pledged

Financial assets are pledged as collateral predominantly under repurchase agreements with other banks. The financial assets pledged by the Group are strictly for the purpose of providing collateral for the counterparty. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities, as well as requirements determined by exchanges where the Group acts as an intermediary. Repurchase agreements that do not qualify for derecognition are reported in *Note 35 - Financial asset transfers and securitisations*.

(b) Contingent liabilities

(i) Bank guarantees and letters of credit

The Group's exposure to potential loss in the event of non-performance by a counterparty in respect of commitments to extend credit, letters of credit and financial guarantees written is represented by the contractual notional principal amount of those instruments less any amounts that may be recovered under recourse provisions. The Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off balance sheet risks as it does for on-balance sheet loan assets.

The Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the credit rating of the Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances. Guarantees are also provided on behalf of counterparties as performance bonds and ongoing obligations to government entities. The Group has four principal types of guarantees:

- Bank guarantees – a financial guarantee that is an agreement by which the Group agrees to pay an amount of money on demand on behalf of a customer to a third party during the life of the guarantee.
- Standby letters of credit – an obligation of the Group on behalf of a customer to make payment to a third party in the event that the customer fails to meet an outstanding financial obligation.
- Documentary letters of credit – a guarantee that is established to indemnify exporters and importers in their trade transactions where the Group agrees to make certain trade payments on behalf of a specified customer under specific conditions.
- Performance-related contingencies – a guarantee given by the Group that undertakes to pay a sum of money to a third party where the customer fails to carry out certain terms and conditions of a contract.

The credit risk involved in issuing guarantees is essentially the same as that involved in extending loan facilities to customers. Apart from the normal documentation for a facility of this type, the customer must also provide the Group with a written indemnity, undertaking that, in the event the Group is called upon to pay, the Group will be fully reimbursed by the customer.

A financial guarantee contract is initially recorded at fair value which is equal to the premium received or receivable, unless there is evidence to the contrary. Subsequently, financial guarantee contracts are measured at the higher of:

- The liability for the estimated amount of the loss payable where it is likely that a loss will be incurred as a result of issuing the contract; or
- The amount initially recognised less, when appropriate, amortisation of the fee over the life of the guarantee.

The following table shows details of the Group's contingent liabilities in relation to bank guarantees and letters of credit for the last two years as at 30 September:

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Bank guarantees and letters of credit				
Bank guarantees	4,802	5,315	4,776	5,480
Standby letters of credit	5,953	6,521	5,953	6,521
Documentary letters of credit	715	846	318	413
Performance-related contingencies	7,435	6,262	6,990	5,698
Total bank guarantees and letters of credit	18,905	18,944	18,037	18,112

(ii) Clearing and settlement obligations

The Company is subject to a commitment in accordance with the rules governing clearing and settlement arrangements contained in the Australian Payments Clearing Association Limited Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Consumer Electronic Clearing System and the High Value Clearing System which could result in a credit risk exposure and loss in the event of a failure to settle by a member institution. The Company also has a commitment in accordance with the Austraclear System Regulations and the Continuous Linked Settlement Bank Rules to participate in loss-sharing arrangements in the event that another financial institution fails to settle.

The Company is a member of various central clearing houses, most notably the London Clearing House (LCH) SwapClear and RepoClear platforms, which enables the Company to centrally clear derivative and repurchase agreement instruments respectively. As a member of these central clearing houses, the Company is required to make a default fund contribution. The exposure to risk associated with this commitment is reflected for Capital Adequacy purposes in the Group's Pillar 3 reporting. In the event of a default of another clearing member, the Company could be required to commit additional funds to the default fund contribution.

Notes to the financial statements

Unrecognised items (continued)

(iii) Legal proceedings

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business.

There are contingent liabilities in respect of claims, potential claims and court proceedings against entities of the Group. Where appropriate, provisions have been made. The aggregate of potential liability in respect thereof cannot be accurately assessed.

(iv) Class actions

In March 2013, a potential representative action against New Zealand banks was announced in relation to certain fees. On 20 August 2014, representative proceedings were filed against Bank of New Zealand (BNZ) with Litigation Lending Services (NZ) Limited funding the action. On 24 September 2014, 30 April 2015, 3 December 2015 and 4 May 2016, these proceedings were stayed. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

On 16 August 2016, a class action complaint was filed in the United States District Court for the Southern District of New York regarding alleged conduct concerning the Bank Bill Swap Reference Rate (BBSW), which is administered by the Australian Financial Markets Association. The complaint names a number of defendants, including NAB and BNZ and references the proceedings brought by ASIC against NAB, ANZ and Westpac in relation to BBSW. At this stage, NAB and BNZ have not been served with the complaint and the potential outcome of such proceeding cannot be determined with any certainty.

(v) UK conduct issues and the Conduct Indemnity Deed

As part of the arrangements relating to the CYBG demerger, NAB and CYBG entered into a Conduct Indemnity Deed under which NAB agreed, subject to certain limitations, to provide an indemnity in respect of certain historic conduct liabilities (Capped Indemnity) up to a cap of £1.115 billion (Capped Indemnity Amount). The Capped Indemnity provides CYBG with economic protection against certain costs and liabilities (including financial penalties imposed by a regulator) resulting from conduct issues relating to:

- payment protection insurance (PPI), certain interest rate hedging products (IRHP) and certain fixed rate tailored business loans (FRTBLs); and
- other conduct matters, measured by reference to the following thresholds: (a) claims relating to an industry wide compensation customer redress program entered into as part of a settlement with a regulator exceeding £2.5 million, in aggregate; and (b) all other claims that exceed £5 million, in aggregate, and affect more than 50 customers,

which, in each case, relate to conduct in the period prior to 8 February 2016 (the Demerger Date) whether or not known at the Demerger Date. Such conduct issues include acts, omissions and agreements by or on behalf of CYBG Group with respect to customers which either constitute a breach of or failure to comply with applicable law or regulations, or are determined by CYBG in good faith to be reasonably likely on a balance of probabilities to constitute a breach of or failure to comply with applicable law or regulations.

It is not expected that payments to CYBG under the Capped Indemnity will be taxable in the hands of CYBG Group, but if tax were to be payable then the Conduct Indemnity Deed contains provisions pursuant to which NAB has agreed to compensate CYBG for any actual tax incurred that would not have been incurred but for the receipt of amounts under the Capped Indemnity.

Claims may be made by CYBG under the Capped Indemnity when it or any member of CYBG Group raises a new provision or increases an existing provision in respect of any such conduct issues. Under a loss sharing arrangement, CYBG will be responsible for 9.7% of the liabilities under any provision for such conduct issues with NAB responsible for the remainder under the Capped Indemnity up to the Capped Indemnity Amount. The Capped Indemnity is perpetual in nature, although NAB has rights in certain circumstances to negotiate arrangements to terminate the Capped Indemnity subject to the approval of the PRA.

For the full year ended 30 September 2016, CYBG has made claims under the Capped Indemnity (or indicated that it will make such claims) for £433 million, leaving £682 million outstanding as available support under the Capped Indemnity (Unutilised Indemnity Amount).

The Unutilised Indemnity Amount at any point in time is accounted for by NAB as a contingent liability, with any potential future losses incurred under the indemnity expensed within discontinued operations. The frequency and timing of any potential future losses is unknown. The amount of the Capped Indemnity that will be utilised by any potential future losses is unknown.

NAB collateralised its obligations under the Capped Indemnity by placing a cash deposit of £1.115 billion with The Bank of England from the Demerger Date. The cash deposit with The Bank of England has been reduced commensurate with the amounts claimed under the Capped Indemnity such that the cash deposit amount is equal to the Unutilised Indemnity Amount (plus accrued interest). The Unutilised Indemnity Amount is treated as a Common Equity Tier 1 (CET1) deduction for NAB.

Except for the Capped Indemnity and the tax provisions set out in the Conduct Indemnity Deed, CYBG has agreed to release NAB from liability for any other conduct-related claims by any member of CYBG Group against NAB.

NAB is in the process of making insurance claims in relation to certain UK conduct-related losses suffered by the Group. The outcome of such claims is uncertain.

(vi) Legal proceedings commenced by Australian regulators

Following an industry-wide review by ASIC into participants in the BBSW market, ASIC commenced Federal Court proceedings against NAB on 7 June 2016. ASIC has also commenced similar proceedings against two other market participants. ASIC's allegations against NAB include claims of market manipulation and unconscionable conduct in relation to trading in the BBSW market during the period June 2010 to December 2012. NAB disagrees with ASIC's allegations which means that the matter will be decided by the Federal Court process. NAB fully cooperated with ASIC's review which preceded the commencement of proceedings.

Notes to the financial statements

Unrecognised items (continued)

(vii) Industry investigations by Australian regulators

The industry-wide investigations by ASIC and the ACCC into potential wrongdoing in relation to Spot FX trading are continuing. NAB is co-operating with ASIC and the ACCC and is responding to their inquiries. The potential outcomes of the investigations are uncertain at this time.

(viii) Wealth advice review

Since September 2014, the Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including potential unethical or misleading financial advice and compensation processes for consumers impacted by that advice. The Committee's comprehensive final report was due by 31 August 2016; however this inquiry lapsed when the parliamentary committees of the 44th Parliament ceased to exist on the dissolution of the Senate and House of Representatives on 9 May 2016 for the general election held on 2 July 2016.

On 21 October 2015, NAB began contacting certain groups of customers where there was a concern that they may have received non-compliant 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 review program with compensation in some cases offered and paid. No case has progressed to another forum, typically the Financial Ombudsman Service.

The outcomes and total costs associated with this work are uncertain. NAB is also aware that two plaintiff law firms have advertised that they are investigating claims on behalf of NAB customers who have suffered losses as a result of financial advice received from NAB advisers. No formal action has been taken against the Group in this regard.

(c) Credit-related commitments

Binding commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements. Refer to *Note 14 - Loans and advances* for a description of collateral held as security and other credit enhancements.

The following tables show details of the notional amount of credit-related commitments as at 30 September 2016:

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Credit-related commitments				
Underwriting facilities	2	2	2	2
Binding credit commitments ⁽¹⁾	146,801	157,891	129,487	126,543
Total credit-related commitments	146,803	157,893	129,489	126,545

⁽¹⁾ Credit-related commitments for the year to September 2015 have been restated to include housing redraw facilities following a change in methodology.

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Australia ⁽¹⁾	120,534	116,221	119,871	116,222
Europe	3,267	20,445	3,267	3,691
New Zealand	16,651	14,595	-	-
United States	3,879	4,084	3,879	4,084
Asia	2,472	2,548	2,472	2,548
Total	146,803	157,893	129,489	126,545

⁽¹⁾ Credit-related commitments for the year to September 2015 have been restated to include housing redraw facilities following a change in methodology.

(d) Parent entity guarantee and undertakings

The Company has provided the following guarantees and undertakings relating to entities in the Group. These guarantees and undertakings are not included in previous tables in the note.

- The Company will guarantee up to \$26,224 million of commercial paper issuances by National Australia Funding (Delaware) Inc. Commercial paper of \$301 million (2015: \$1,357 million) has been issued.
- The Company will indemnify each customer of National Nominees Limited against any loss suffered by reason of National Nominees Limited failing to perform any obligation undertaken by it to a customer.
- The Company and National Wealth Management Services Limited (NWMSL) have been granted licences by the Safety, Rehabilitation and Compensation Commission (the Commission) to operate as self-insurers under the Commonwealth Government Comcare Scheme. Under these arrangements, the Company has agreed that, in the event it is proposed that NWMSL no longer continues as a wholly owned controlled entity of the Company, the Company will provide the Commission with a guarantee of the then current workers' compensation liabilities of NWMSL.
- The Company has issued letters of support in respect of certain subsidiaries in the normal course of business. The letters recognise that the Company has a responsibility to ensure that those subsidiaries continue to meet their obligations.
- Pursuant to Australian Securities and Investment Commission Class Order 98/1418 dated 13 August 1998, relief was granted to certain controlled entities (*Note 30 - Interest in subsidiaries and other entities, footnote (1)*) from the *Corporations Act 2001* (Cth) requirements for preparation, audit and publication of annual financial reports. It is a condition of the Class Order that the Company and each of the controlled entities enter into a deed of cross guarantee. The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding-up of any of the controlled entities under certain provisions of the *Corporations Act 2001* (Cth). If a winding-up occurs under other provisions of the

Notes to the financial statements

Unrecognised items (continued)

Corporations Act 2001 (Cth), the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up.

Closed group

The tables below present the consolidated pro forma income statement and balance sheet for the Company and controlled entities which are party to the deed of cross guarantee (referred to as a closed group).

The effects of transactions between entities to the deed are eliminated in full in the consolidated pro forma income statement and balance sheets.

	2016	2015
	\$m	\$m
Pro forma income statement		
For the year ended 30 September		
Profit before income tax expense	2,054	8,310
Income tax expense	(1,785)	(2,439)
Net profit for the year	269	5,871
Pro forma balance sheet		
As at 30 September		
Assets		
Cash and liquid assets	28,738	24,329
Due from other banks	43,359	37,698
Trading derivatives	42,440	78,802
Trading securities	41,513	38,512
Debt instruments at fair value through other comprehensive income	40,580	41,944
Other financial assets at fair value	14,831	19,304
Hedging derivatives	5,996	11,219
Loans and advances	441,321	413,989
Due from customers on acceptances	12,205	19,428
Current tax assets	-	1
Property, plant and equipment	1,259	1,338
Investments in controlled entities	9,250	20,960
Goodwill and Other intangible assets	2,093	1,855
Deferred tax assets	1,234	1,296
Other assets	128,865	118,206
Total assets	813,684	828,881
Liabilities		
Due to other banks	42,649	51,938
Trading derivatives	38,949	73,088
Other financial liabilities at fair value	5,408	6,958
Hedging derivatives	6,458	8,564
Deposits and other borrowings	416,241	391,785
Current tax liabilities	248	996
Provisions	1,157	917
Bonds, notes and subordinated debt	123,226	119,136
Other debt issues	6,248	5,652
Other liabilities	125,162	115,048
Total liabilities	765,746	774,082
Net assets	47,938	54,799
Equity		
Contributed equity	32,524	34,407
Reserves	339	316
Retained profits	15,075	20,076
Total equity (parent entity interest)	47,938	54,799
Total equity	47,938	54,799

Notes to the financial statements

Unrecognised items (continued)

32 Operating leases

At the inception of an arrangement, the Group determines whether the arrangement is, or contains, a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset and the arrangement conveys a right to use the asset. At inception or upon reassessment of an arrangement, the Group separates payment and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

Leases where the Group assumes substantially all risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are:

	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
Due within one year	371	439	322	322
Due after one year but no later than five years	963	1,243	833	896
Due after five years	613	940	575	620
Total non-cancellable operating lease commitments	1,947	2,622	1,730	1,838

The Group leases various offices, stores and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. There are no contingent rents payable. The Group also leases data processing and other equipment under non-cancellable lease arrangements.

Notes to the financial statements

Risk disclosures

33 Financial risk management

The Group is a major participant in the banking and financial services industry in Australia and New Zealand. The financial risks associated with these activities are a significant component of the Group's overall risk exposure. The key financial risks faced by the Group are:

- Credit risk.
- Market risk - trading.
- Market risk - non-trading / banking positions.
- Market risk - Wealth Management.
- Liquidity risk.

Further details regarding the nature and extent of each key financial risk faced by the Group and how these risks are managed are outlined as part of this note. Financial risks together with other material risks faced by the Group, including operational, compliance and regulatory risks, are managed and overseen as part of the Group's broader corporate governance structure and risk management framework as follows:

Board Governance

The Group's corporate governance structure provides guidance for effective decision making in all areas of the Group through:

- Strategic and operational planning.
- Risk management and compliance.
- Financial management and external reporting.
- Succession planning and culture.

The Board determines the most appropriate corporate governance practices for the Group and is supported by a number of committees. The Board Risk Committee (BRC) supports the framework for risk management across the Group by:

- Overseeing the risk profile and risk management of the Group within the context of the Board determined risk appetite.
- Making recommendations to the Board concerning the Group's risk appetite, risk management strategy and particular risks or risk management practices.
- Reviewing management's plans for mitigation of material risks faced by the Group.
- Overseeing the implementation and review of the risk management framework and internal compliance and control systems throughout the Group.
- Promoting awareness of a risk-based culture and the achievement of a balance between risk and return for risks accepted.

Executive Governance

At an executive level, risk is overseen by the Group Chief Executive Officer through the Group Risk Return Management Committee (GRRMC), which leads management in respect of risk matters relating to culture, integrated governance processes, risk strategy and performance.

GRRMC and its supporting sub-committees provide oversight of strategy, risk/return and performance of specific risks as follows:

- Group Asset & Liability Committee (GALCO): balance sheet structure.
- Group Credit and Market Risk Committee (GCMRC): credit and traded market risk portfolio.
- Group Capital Committee (GCC): regulatory and economic capital.
- Group Regulatory, Compliance and Operational Risk Committee (GRCORC): operational risk, regulatory and compliance.

GCMRC is further supported by two sub-committees which provide specialist advice, support and decision making in areas requiring deep subject matter expertise as follows:

- Transactional Credit Committee (TCC): significant credit facility approvals.
- Group Technical Risk Models Committee (GTRMC): risk model frameworks and methodology.

Additionally, each First Line division has a Risk Management Committee, chaired by the relevant Group Executive, to support them in executing their risk management accountabilities. Second Line risk specialists are embedded in the organisational structure (for example, as members of divisional Risk Management Committees and Executive management committees) to ensure that a risk and compliance lens is applied to executive decision making.

Risk management

Risk exists in all aspects of the Group's business and the environment in which it operates. Risk is identified and managed as part of a Group-wide risk management framework that starts with the Board approved Strategy, Risk Appetite, Capital, Funding and Operational Plans. Risk appetite is translated and cascaded to the businesses qualitatively (through risk policies, procedures and standard operating procedures) and quantitatively (through the Group's risk limits, settings and decision authorities).

Compliance with the Group's risk management framework is non-negotiable. The Group's operating model differentiates accountabilities using the Three Lines of Defence Model as follows:

- First line: Management (who own the risks).
- Second line: Risk (who establish frameworks and provide insight, oversight and appetite).
- Third line: Internal Audit (who provide independent assurance).

Further details of risk accountabilities across the Group are disclosed in the *Corporate Governance* section of the Group's website at www.nab.com.au/about-us/corporate-governance.

The key financial risks faced by the Group are set out in detail in this note.

Notes to the financial statements

Risk disclosures (continued)

Credit risk

Credit is any transaction that creates an actual or potential obligation for a counterparty or customer to pay the Group. Credit risk is the potential that a counterparty or customer will fail to meet its obligations to the Group in accordance with agreed terms. Bank lending activities account for most of the Group's credit risk, however other sources of credit risk also exist throughout the activities of the Group. These activities include the banking book, the trading book, and other financial instruments and loans (including, but not limited to, acceptances, placements, inter-bank transactions, trade financing, foreign exchange transactions, swaps, bonds and options), as well as in the extension of commitments and guarantees and the settlement of transactions.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to existing or potential counterparties or customers, groups of related counterparties or groups of related customers, and to geographical and industry segments. Such risks are monitored on an ongoing basis and are subject to an annual or more frequent review.

In general, the Group does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on the balance sheet.

Exposure to credit risk is managed through regular analysis of the ability of existing or potential counterparties, customers, groups of related counterparties or groups of related customers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if any counterparty failed to meet its obligations in accordance with agreed terms, all amounts with the counterparty are terminated and settled on a net basis.

Further quantitative details around the effect of such netting arrangements are outlined in the Offsetting of financial assets and liabilities disclosures on page 115.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for recognised and unrecognised financial instruments. The maximum exposure is shown gross before both the effect of mitigation through use of master netting and collateral arrangements. The extent to which collateral and other credit enhancements mitigate the maximum exposure to credit risk is described in the footnotes to the table.

For financial assets recognised on the balance sheet, the gross exposure to credit risk equals their carrying amount.

For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees are called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	Footnote	Group		Company	
		2016 \$m	2015 \$m	2016 \$m	2015 \$m
Financial assets					
Cash and liquid assets	(a)	29,606	24,793	27,822	23,408
Due from other banks	(b)	45,236	50,595	43,359	37,698
Trading derivatives	(c)	43,131	78,384	42,440	79,149
Trading securities	(d)	45,971	42,937	41,513	38,512
Debt instruments at fair value through other comprehensive income	(d)	40,689	45,189	40,580	41,944
Investments relating to life insurance business	(f)	86	89,350	-	-
Other financial assets at fair value	(e)	21,496	29,696	14,831	19,304
Hedging derivatives	(c)	6,407	11,599	5,996	11,219
Loans and advances	(e)	513,691	537,165	444,646	417,386
Due from customers on acceptances	(e)	12,205	19,437	12,205	19,428
Due from controlled entities	(g)	-	-	119,414	110,241
Other assets ⁽¹⁾	(g)	10,637	10,261	9,011	7,984
Total		769,155	939,406	801,817	806,273
Contingent liabilities					
Contingent liabilities	(h)	18,905	18,944	18,037	18,112
Credit-related commitments ⁽²⁾	(i)	146,803	157,893	129,489	126,545
Total		165,708	176,837	147,526	144,657
Total credit risk exposure		934,863	1,116,243	949,343	950,930

⁽¹⁾ Other assets for the year to September 2015 have been restated to include various other financial assets following a change in methodology.

⁽²⁾ Credit-related commitments for the year to September 2015 have been restated to include housing redraw facilities following a change in methodology.

Notes to the financial statements

Risk disclosures (continued)

a) The balance of **Cash and liquid assets** which is exposed to credit risk is comprised primarily of reverse repurchase agreements and securities borrowing agreements. These are collateralised with highly liquid securities and the collateral is in excess of the borrowed or loaned amount. The fair value of the securities pledged as collateral by the counterparty under these agreements is disclosed in *Note 9 - Cash and cash equivalents*.

b) The balance of **Due from other banks** which is exposed to credit risk is comprised primarily of securities borrowing agreements and reverse repurchase agreements, as well as balances held with central supervisory banks and other interest earning assets. Securities borrowing agreements and reverse repurchase agreements are collateralised with highly liquid securities and the collateral is in excess of the borrowed or loaned amount. The fair value of the securities pledged as collateral by the counterparty under these agreements is disclosed in *Note 9 - Cash and cash equivalents*.

Balances held with central supervisory banks and other interest earning assets that are due from other banks are managed based on the counterparty's creditworthiness. The Group will utilise master netting arrangements where possible to reduce its exposure to credit risk. Details on the credit grading of Due from other banks balances held by the Group is disclosed in the credit quality table included within the Financial assets neither past due nor impaired disclosure beginning on page 118.

c) At any one time, the maximum exposure to credit risk from **Trading and hedging derivatives** is limited to the current fair value of instruments that are favourable to the Group less collateral obtained. This credit risk is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

The Group uses documentation including International Swaps and Derivatives Association (ISDA) Master Agreements to document derivative activities. Under the ISDA Master Agreements, if a default of a counterparty occurs, all contracts with the counterparty are terminated. They are then settled on a net basis at market levels current at the time of default. The Group also executes Credit Support Annexes in conjunction with ISDA Master Agreements.

Credit risk from over-the-counter Trading and hedging derivatives is mitigated where possible through netting arrangements whereby derivative assets and liabilities with the same counterparty can be offset in certain circumstances. Derivatives that are cleared through a central clearing counterparty or an exchange have less credit risk than over the counter derivatives and are subject to relevant netting and collateral agreements.

Collateral is obtained against derivative assets, depending on the creditworthiness of the counterparty and/or the nature of the transaction.

d) **Trading securities and Debt instruments at fair value through other comprehensive income** are generally comprised of similar financial instruments being Government, Semi-government, Corporate and Financial institution bonds, notes and securities. The amount of collateral held against such instruments will depend on the counterparty and the nature of the specific financial instrument.

The Group may utilise Credit Default Swaps (CDS), guarantees provided by central banks, other forms of credit enhancements or collateral in order to minimise the Group's exposure to credit risk. The credit grading of Debt instruments at fair value through other comprehensive income are disclosed in the credit quality table included within the Financial assets neither past due nor impaired disclosure beginning on page 118.

e) **Other financial assets at fair value, Loans and advances and Due from customers on acceptances**, mainly comprise general lending and line of credit products. The distinction in classification reflects the type of lending product or is due to an accounting designation. These lending products will generally have a significant level of collateralisation depending on the nature of the product.

Other lending to non-retail customers may be provided on an unsecured basis or secured (partially or fully) by acceptable collateral defined in specific Group credit policy and business unit procedures. Collateral is generally comprised of business assets, inventories and in some cases personal assets of the borrower. The Group manages its exposure to these products by completing a credit evaluation to assess the customer's character, industry, business model and capacity to meet their commitments without distress. Collateral provides a secondary source of repayment for funds advanced in the event that a customer cannot meet their contractual repayment obligations. For amounts due from customers on acceptance the Group generally has recourse to guarantees, underlying inventories or other assets in the event of default which significantly mitigates the credit risk associated with accepting the customer's credit facility with a third party.

Housing loans are secured against residential property as collateral, and where applicable, Lenders Mortgage Insurance (LMI) is obtained by the Group (mostly in Australia) in order to cover any shortfall in outstanding loan principal and accrued interest. LMI is generally obtained for residential mortgages with a Loan to Valuation Ratio (LVR) in excess of 80%. The financial effect of these measures is that remaining credit risk on residential mortgage loans is minimal. Other retail lending products are mostly unsecured (e.g. credit card outstandings and other personal lending).

f) **Investments relating to life insurance business** have been significantly reduced as a result of the Successor Fund Merger that occurred on 1 July 2016 and the sale of 80% of NAB Wealth's life insurance business to Nippon Life. During the financial year and as at the reporting date, the credit and market risk related to investment assets linked to policyholder liabilities were borne by the policyholders and therefore those financial risks did not directly flow through to the Group's Wealth Management business.

The Group has minimal remaining non-investment linked assets (e.g. debt securities) which expose the Group to credit risk in the Wealth Management business.

g) The balance of **Other assets** which is exposed to credit risk is primarily comprised of interest receivable accruals and other receivables. Interest receivable accruals are subject to the same collateral as the underlying borrowings. Other receivables will mostly be unsecured. There are typically no collateral or other credit enhancements obtained in respect of amounts **Due from controlled entities**.

h) **Contingent liabilities** are comprised mainly of guarantees to customers, and to controlled entities of the Group under the deed of cross guarantee, standby or documentary letters of credit and performance related contingencies. The Group will typically have recourse to specific assets pledged as collateral in the event of a default by a party for which the Group has guaranteed its obligations to a third party.

Notes to the financial statements

Risk disclosures (continued)

i) Credit-related commitments are facilities where the Group is under legal obligation to extend credit unless some event occurs, which gives the Group the right, in terms of the commitment letter of offer or other documentation, to withdraw or suspend facilities. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct unsecured borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss of an amount equal to the total unused commitments. However, the likely amount of loss is generally less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because, in general, longer term commitments have a greater degree of credit risk than shorter term commitments.

Credit-related commitments are comprised mainly of irrevocable credit commitments to lend to a customer provided there is no breach of any condition established in the contract with that customer. If such credit commitments are drawn down by the customer there will typically be specific collateral requirements that will need to be satisfied by the customer in order to access the credit facilities.

Offsetting of financial assets and liabilities

The table below illustrates the amounts of financial instruments that have been offset on the balance sheet and also those amounts that are subject to enforceable master netting arrangements or similar agreements (i.e. offsetting agreements and any related financial collateral). The table excludes financial instruments not subject to offset and that are only subject to collateral arrangements (e.g. loans and advances).

The "Net Amounts" presented in the table are not intended to represent the Group's actual exposure to credit risk, as the Group will utilise a wide range of strategies to mitigate credit risk in addition to netting and collateral arrangements. The offsetting and collateral arrangements and other credit risk mitigation strategies are further explained on page 113.

The amounts recognised on the balance sheet comprise of the sum of the 'Net amounts reported on balance sheet' and 'Amounts not subject to enforceable netting arrangements' included in the table below.

Group	2016							Amounts not subject to enforceable netting arrangements ⁽¹⁾
	Amount subject to enforceable netting arrangements			Related amounts not offset				
	Effect of offsetting on balance sheet		Net amounts reported on balance sheet	Financial Instruments ⁽³⁾	Non Cash Collateral ⁽⁴⁾	Cash Collateral ⁽⁴⁾	Net Amount	
	Gross amounts	Amount offset ⁽²⁾						
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Derivative financial assets ⁽⁵⁾	72,440	30,998	41,442	30,007	290	7,786	3,359	8,096
Reverse repurchase agreements ⁽⁶⁾	58,812	21,529	37,283	-	37,283	-	-	-
Total assets	131,252	52,527	78,725	30,007	37,573	7,786	3,359	8,096
Derivative financial liabilities ⁽⁷⁾	70,978	30,998	39,980	30,007	230	8,623	1,120	4,919
Repurchase agreements ⁽⁸⁾	55,951	21,529	34,422	-	34,422	-	-	-
Total liabilities	126,929	52,527	74,402	30,007	34,652	8,623	1,120	4,919

⁽¹⁾ Amounts not subject to enforceable netting arrangements relate to items which do not have an enforceable netting arrangement in place or there is uncertainty as to the legal enforceability of a close out netting arrangement in a default or liquidation under the laws of a specific jurisdiction.

⁽²⁾ Amount offset comprises of certain centrally cleared derivatives and their associated collateral amounts which are deemed to satisfy the AASB 132 'Financial Instruments: Presentation' offsetting criteria. Associated collateral amounts of \$2,900 million and \$1,793 million were netted against Other assets and Other liabilities, respectively.

⁽³⁾ Financial instruments include recognised financial instruments amounts on the balance sheet.

⁽⁴⁾ Collateral amounts (cash and non-cash financial collateral) included are reflected at their fair value; however this amount is limited to the net balance sheet exposure in order to not include any over-collateralisation.

⁽⁵⁾ Derivative financial assets comprise of both trading and hedging derivatives assets reported on the Group balance sheet \$43,131 million and \$6,407 million, respectively (2015: \$78,384 million and \$11,599 million), and on the Company balance sheet \$42,440 million and \$5,996 million, respectively (2015: \$79,149 million and \$11,219 million).

⁽⁶⁾ Reverse repurchase agreements of \$37,283 million (2015: \$37,831 million) are reported on the Group balance sheet within Cash and liquid assets \$28,219 million (2015: \$23,292 million) and Due from other banks \$9,064 million (2015: \$14,539 million). Reverse repurchase agreements of \$36,662 million (2015: \$37,534 million) are reported on the Company balance sheet within Cash and liquid assets \$27,762 million (2015: \$23,111 million) and Due from other banks \$8,900 million (2015: \$14,423 million).

⁽⁷⁾ Derivative financial liabilities comprise of both trading and hedging derivatives liabilities reported on the Group balance sheet \$41,654 million and \$3,245 million, respectively (2015: \$74,442 million and \$4,539 million) and on the Company balance sheet \$38,949 million and \$6,458 million, respectively (2015: \$73,459 million and \$8,564 million).

⁽⁸⁾ Repurchase agreements of \$34,422 million (2015: \$33,192 million) are reported on the Group balance sheet within Due to other banks \$18,358 million (2015: \$24,275 million) and Deposits and other borrowings \$16,064 million (2015: \$8,917 million). Repurchase agreements of \$34,249 million (2015: \$32,945 million) are reported on the Company balance sheet within Due to other banks \$18,185 million (2015: \$24,028 million) and Deposits and other borrowings \$16,064 million (2015: \$8,917 million).

Notes to the financial statements

Risk disclosures (continued)

Group ⁽¹⁾	2015							Amounts not subject to enforceable netting arrangements
	Amount subject to enforceable netting arrangements			Related amounts not offset				
	Effect of offsetting on balance sheet							
	Gross amounts	Amount offset	Net amounts reported on balance sheet	Financial Instruments	Non Cash Collateral	Cash Collateral	Net Amount	
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Derivative financial assets	80,607	-	80,607	63,397	329	14,823	2,058	9,376
Reverse repurchase agreements	67,055	29,224	37,831	-	37,831	-	-	-
Total assets	147,662	29,224	118,438	63,397	38,160	14,823	2,058	9,376
Derivative financial liabilities	74,535	-	74,535	63,397	9	7,744	3,385	4,446
Repurchase agreements	62,416	29,224	33,192	-	33,192	-	-	-
Total liabilities	136,951	29,224	107,727	63,397	33,201	7,744	3,385	4,446

Company ⁽¹⁾	2016							Amounts not subject to enforceable netting arrangements
	Amount subject to enforceable netting arrangements			Related amounts not offset				
	Effect of offsetting on balance sheet							
	Gross amounts	Amount offset	Net amounts reported on balance sheet	Financial Instruments	Non Cash Collateral	Cash Collateral	Net Amount	
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Derivative financial assets	72,318	30,998	41,320	28,207	290	7,516	5,307	7,116
Reverse repurchase agreements	58,191	21,529	36,662	-	36,662	-	-	-
Total assets	130,509	52,527	77,982	28,207	36,952	7,516	5,307	7,116
Derivative financial liabilities	72,042	30,998	41,044	28,207	230	7,407	5,200	4,363
Repurchase agreements	55,778	21,529	34,249	-	34,249	-	-	-
Total liabilities	127,820	52,527	75,293	28,207	34,479	7,407	5,200	4,363

Company ⁽¹⁾	2015							Amounts not subject to enforceable netting arrangements
	Amount subject to enforceable netting arrangements			Related amounts not offset				
	Effect of offsetting on balance sheet							
	Gross amounts	Amount offset	Net amounts reported on balance sheet	Financial Instruments	Non Cash Collateral	Cash Collateral	Net Amount	
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Derivative financial assets	81,718	-	81,718	61,452	329	14,925	5,012	8,650
Reverse repurchase agreements	66,758	29,224	37,534	-	37,534	-	-	-
Total assets	148,476	29,224	119,252	61,452	37,863	14,925	5,012	8,650
Derivative financial liabilities	77,808	-	77,808	61,452	9	6,469	9,878	4,215
Repurchase agreements	62,169	29,224	32,945	-	32,945	-	-	-
Total liabilities	139,977	29,224	110,753	61,452	32,954	6,469	9,878	4,215

⁽¹⁾ Refer to the footnotes on the 2016 Group table (on the previous page) for further details.

Derivative financial assets and liabilities

Derivative financial instrument contracts are typically subject to International Swaps and Derivatives Association (ISDA) Master Agreements, and also relevant Credit Support Annexes (CSA) pertaining to collateral arrangements attached to those ISDA agreements, or derivative exchange or clearing counterparty agreements if contracts are settled via an exchange or clearing house.

Derivative amounts will only be offset on the balance sheet where the Group has a legal right of offset both for payments netting (i.e. in the ordinary course of business) and close out netting (i.e. upon default or insolvency), which is typically associated with certain exchange and central clearing counterparty settled contracts and where the Group is satisfied that such a right of offset is legally enforceable and meets all accounting standard requirements for offsetting. During the year the Group has applied offsetting of certain centrally cleared derivatives and their associated collateral amounts which were deemed to satisfy the AASB 132 'Financial Instruments: Presentation' requirements.

The amounts included in the Financial Instruments column refers to amounts that are subject to relevant close out netting arrangements under a relevant ISDA agreement. The Cash Collateral and Non Cash Collateral columns include amounts of cash and non-cash collateral, respectively, which are either obtained or pledged, to cover the net exposure to the counterparty in the event of default or insolvency.

Notes to the financial statements

Risk disclosures (continued)

Reverse repurchase and Repurchase agreements

Reverse repurchase and Repurchase agreements will typically be subject to Global Master Repurchase Agreements (GMRAs) or similar agreements whereby all outstanding transactions with the same counterparty can be offset and closed out upon a default or insolvency event (i.e. close out netting). In some instances, under the relevant agreement, the Group has a legally enforceable right of offset both for payments and default netting and will offset amounts with that counterparty on the balance sheet when the agreement satisfies accounting standard requirements.

Where the Group has a right of offset on default or insolvency only, the related non cash collateral amounts comprise highly liquid securities, either obtained or pledged, which can be realised in the event of a default or insolvency by one of the counterparties. The value of such securities obtained or pledged must at least equate to the value of the exposure to the counterparty, therefore the net exposure is considered to be nil.

Credit quality of financial assets

The Group has an internally developed credit rating master-scale derived from historical default data drawn from a number of sources to assess the potential default risk in lending or through providing other financial services products to counterparties or customers. The Group has pre-defined counterparty probabilities of default across all retail and non-retail loans and advances. For non-retail, these can be broadly mapped to external rating agencies and comprises performing (pre-default) and non-performing (post-default) grades.

Inputs, assumptions and techniques used for estimating impairment

In assessing the impairment of financial assets under the expected credit loss model, the Group defines default in accordance with its Credit Policy and Procedures, which includes defaulted assets and impaired assets as described below. Defaulted assets consist of retail loans (excluding unsecured portfolio managed facilities) and non-retail loans which are at least 90 days past due on any material obligation.

Impaired exposures under the expected credit loss model consist of:

- Retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days and there is sufficient doubt about the ultimate collectability of principal and/or interest.
- Non-retail loans which are contractually past due 90 days and there is sufficient doubt about the ultimate collectability of principal and/or interest.
- Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.
- Unsecured portfolio managed facilities which are 180 days past due (if not written off).

Assessment of significant increase in credit risk

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

Calculation of expected credit losses

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

Incorporation of forward-looking information

The Group has established an expert panel who considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments, that support the calculation of ECLs. The expert panel consists of senior executives from risk, finance and economics functions. Relevant regional and industry specific adjustments are applied to capture variations from general industry scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, unemployment, interest rates, gross domestic product, inflation and commercial property prices, and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Notes to the financial statements

Risk disclosures (continued)

Financial assets neither past due nor impaired

The credit quality of the portfolio of financial assets that are neither past due nor impaired can be assessed by reference to the Group's standard credit rating. The credit rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty/customer risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Refer to Note 1 (g) *Financial instruments (vi) - Impairment of financial assets* for details on the assessment of credit deterioration.

The tables below represent an analysis of the credit quality of relevant financial assets that are neither past due nor impaired, based on the following grades:

- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A- (internal rating 1 to 5).
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB- (internal rating 6 to 11).
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ up to but not including defaulted or impaired (internal rating 12 to 23).

	Group		Company		Group		Company	
	Loans and advances ⁽¹⁾		Loans and advances ⁽¹⁾		Acceptances		Acceptances	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Senior investment grade	120,975	113,371	104,680	99,462	49	201	49	201
Investment grade	199,264	190,409	178,473	168,499	2,871	3,598	2,871	3,597
Sub-investment grade	180,196	221,364	150,166	140,157	9,285	15,638	9,285	15,630
Total	500,435	525,144	433,319	408,118	12,205	19,437	12,205	19,428

⁽¹⁾ For the year ended 30 September 2016, various loans and advances, previously classified as Senior Investment Grade, have been classified as Investment grade and Sub-investment grade, respectively. Prior year comparatives have been restated to reflect these changes.

	Group		Company		Group		Company	
	Due from other banks		Due from other banks		Debt instruments at FVOCI		Debt instruments at FVOCI	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Senior investment grade	42,593	48,412	40,716	35,439	40,353	44,883	40,262	41,657
Investment grade	2,599	2,116	2,599	2,192	336	306	318	287
Sub-investment grade	44	67	44	67	-	-	-	-
Total	45,236	50,595	43,359	37,698	40,689	45,189	40,580	41,944

Credit risk exposures by risk grade

The tables below show significant exposures to credit risk to which the expected credit loss model is applied, for recognised and unrecognised financial assets, based on the following risk grades:

- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A- (internal rating 1 to 5).
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB- (internal rating 6 to 11).
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ (internal rating 12 to 23).
- Default: broadly corresponds with Standard & Poor's rating of D (internal rating 98 and 99).

Group	Loans and advances and loan commitments for which the loss allowance is measured at: ⁽¹⁾							
	12-months expected credit loss		Lifetime expected credit losses		Lifetime expected credit losses		Total	
	Not credit impaired		Not credit impaired		Credit impaired			
	2016	2015	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Senior investment grade	180,034	170,657	-	-	-	-	180,034	170,657
Investment grade	261,122	249,834	2,486	4,590	-	-	263,608	254,424
Sub-investment grade	152,435	201,508	74,316	76,954	-	-	226,751	278,462
Default	-	-	1,618	1,543	6,152	6,544	7,770	8,087
Total	593,591	621,999	78,420	83,087	6,152	6,544	678,163	711,630

⁽¹⁾ Credit-related commitments have been restated to include housing redraw facilities following a change in methodology. In addition, for the year ended 30 September 2016, various loans and advances, previously classified as Senior Investment Grade, have been classified as Investment grade and Sub-investment grade, respectively. Prior year comparatives have been restated to reflect these changes.

Group	Acceptances for which the loss allowance is measured at:							
	12-months expected credit loss		Lifetime expected credit losses		Lifetime expected credit losses		Total	
	Not credit impaired		Not credit impaired		Credit impaired			
	2016	2015	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Senior investment grade	52	369	-	-	-	-	52	369
Investment grade	2,916	3,789	264	257	-	-	3,180	4,046
Sub-investment grade	5,154	7,762	5,022	9,495	-	-	10,176	17,257
Default	-	-	-	-	33	136	33	136
Total	8,122	11,920	5,286	9,752	33	136	13,441	21,808

Notes to the financial statements

Risk disclosures (continued)

Debt instruments at fair value through other comprehensive income for which the loss allowance is measured at:

Group	12-months expected credit loss		Lifetime expected credit losses		Lifetime expected credit losses		Total	
	Not credit impaired		Not credit impaired		Credit impaired		2016	2015
	2016	2015	2016	2015	2016	2015		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Senior investment grade	40,353	44,745	-	-	-	-	40,353	44,745
Investment grade	336	376	-	-	-	-	336	376
Sub-investment grade	-	7	-	9	-	-	-	16
Default	-	-	-	-	-	52	-	52
Total	40,689	45,128	-	9	-	52	40,689	45,189

Loans and advances and loan commitments for which the loss allowance is measured at: ⁽¹⁾

Company	12-months expected credit loss		Lifetime expected credit losses		Lifetime expected credit losses		Total	
	Not credit impaired		Not credit impaired		Credit impaired		2016	2015
	2016	2015	2016	2015	2016	2015		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Senior investment grade	157,981	149,985	-	-	-	-	157,981	149,985
Investment grade	234,402	220,970	1,975	3,445	-	-	236,377	224,415
Sub-investment grade	130,377	121,029	59,754	57,838	-	-	190,131	178,867
Default	-	-	1,614	1,527	4,832	4,888	6,446	6,415
Total	522,760	491,984	63,343	62,810	4,832	4,888	590,935	559,682

⁽¹⁾ Credit-related commitments have been restated to include housing redraw facilities following a change in methodology. In addition, for the year ended 30 September 2016, various loans and advances, previously classified as Senior Investment Grade, have been classified as Investment grade and Sub-investment grade, respectively. Prior year comparatives have been restated to reflect these changes.

Acceptances for which the loss allowance is measured at:

Company	12-months expected credit loss		Lifetime expected credit losses		Lifetime expected credit losses		Total	
	Not credit impaired		Not credit impaired		Credit impaired		2016	2015
	2016	2015	2016	2015	2016	2015		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Senior investment grade	52	369	-	-	-	-	52	369
Investment grade	2,916	3,786	264	256	-	-	3,180	4,042
Sub-investment grade	5,154	7,756	5,022	9,486	-	-	10,176	17,242
Default	-	-	-	-	33	136	33	136
Total	8,122	11,911	5,286	9,742	33	136	13,441	21,789

Debt instruments at fair value through other comprehensive income for which the loss allowance is measured at:

Company	12-months expected credit loss		Lifetime expected credit losses		Lifetime expected credit losses		Total	
	Not credit impaired		Not credit impaired		Credit impaired		2016	2015
	2016	2015	2016	2015	2016	2015		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Senior investment grade	40,262	41,508	-	-	-	-	40,262	41,508
Investment grade	318	368	-	-	-	-	318	368
Sub-investment grade	-	7	-	9	-	-	-	16
Default	-	-	-	-	-	52	-	52
Total	40,580	41,883	-	9	-	52	40,580	41,944

Risk concentrations

Concentration of risk is managed by client/counterparty, by industry sector and by geographical region.

Counterparty concentration

Concentration of risk to a counterparty or groups of related counterparties is monitored in accordance with APS 221 "Large Exposures", including the establishment of policies governing large exposures, implementation of appropriate limits and regular monitoring and reporting against those limits.

Concentration of exposure

Concentration of credit risk exists when a number of counterparties are engaged in similar activities, or operate in the same geographical areas or industry sections and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions.

The diversification and size of the Group are such that its lending is widely spread both geographically and in terms of the types of industries it serves.

Notes to the financial statements

Risk disclosures (continued)

Industry concentration of financial assets

The following tables show the level of industry concentrations of financial assets as at 30 September:

Group	Loans at fair value		Loans at amortised cost		Provisions for doubtful debts		Contingent liabilities and credit-related commitments ⁽¹⁾	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Government and public authorities	374	585	1,881	1,760	1	-	1,567	2,506
Agriculture, forestry, fishing and mining	5,835	7,744	29,530	28,601	726	537	11,381	12,122
Financial, investment and insurance	599	692	21,809	20,032	112	149	22,040	19,625
Real estate - construction	207	652	2,595	3,198	42	41	2,061	1,925
Manufacturing	1,007	1,404	9,381	10,530	242	272	8,183	9,418
Instalment loans to individuals and other personal lending (including credit cards)	26	70	11,062	13,814	309	338	15,683	19,509
Real estate - mortgage	-	-	314,557	341,965	253	330	52,367	54,448
Asset and lease financing	-	-	10,949	11,764	96	114	168	740
Commercial property services	6,650	8,220	51,583	42,033	363	579	13,549	13,669
Other commercial and industrial	5,166	8,178	60,344	63,468	970	1,160	38,709	42,875
Total	19,864	27,545	513,691	537,165	3,114	3,520	165,708	176,837

⁽¹⁾ Credit-related commitments for the year to September 2015 have been restated to include housing redraw facilities following a change in methodology.

Group	Due from other banks		Debt instruments at fair value through other comprehensive income		Acceptances	
	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m
Government and public authorities	-	-	23,488	26,416	-	4
Agriculture, forestry, fishing and mining	-	-	-	5	1,064	1,616
Financial, investment and insurance	45,236	50,595	10,148	11,942	113	392
Real estate - construction	-	-	-	-	10	65
Manufacturing	-	-	-	35	278	638
Instalment loans to individuals and other personal lending (including credit cards)	-	-	-	-	1	6
Real estate - mortgage	-	-	6,986	6,685	-	-
Commercial property services	-	-	-	-	8,258	12,069
Other commercial and industrial	-	-	67	106	2,481	4,647
Total	45,236	50,595	40,689	45,189	12,205	19,437

Company	Loans at fair value		Loans at amortised cost		Provisions for doubtful debts		Contingent liabilities and credit-related commitments ⁽¹⁾	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Government and public authorities	330	503	1,745	1,672	-	-	734	720
Agriculture, forestry, fishing and mining	2,922	3,763	18,258	16,499	555	392	9,898	9,960
Financial, investment and insurance	518	602	20,221	17,730	82	112	21,557	19,203
Real estate - construction	185	464	1,777	2,038	40	33	1,894	1,743
Manufacturing	674	869	6,788	6,953	205	185	6,544	6,392
Instalment loans to individuals and other personal lending (including credit cards)	4	6	9,700	9,288	293	265	12,926	12,524
Real estate - mortgage	-	-	278,659	265,149	229	200	48,368	47,637
Asset and lease financing	-	-	10,478	10,254	92	99	168	185
Commercial property services	5,550	6,695	44,186	35,763	304	470	11,738	11,733
Other commercial and industrial	4,377	5,797	52,834	52,040	825	771	33,699	34,560
Total	14,560	18,699	444,646	417,386	2,625	2,527	147,526	144,657

⁽¹⁾ Credit-related commitments for the year to September 2015 have been restated to include housing redraw facilities following a change in methodology.

Notes to the financial statements

Risk disclosures (continued)

Company	Due from other banks		Debt instruments at fair value through other comprehensive income		Acceptances	
	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m
Government and public authorities	-	-	23,488	23,293	-	4
Agriculture, forestry, fishing and mining	-	-	-	5	1,064	1,616
Financial, investment and insurance	43,359	37,698	10,055	11,824	113	392
Real estate - construction	-	-	-	-	10	65
Manufacturing	-	-	-	35	278	629
Instalment loans to individuals and other personal lending (including credit cards)	-	-	-	-	1	6
Real estate - mortgage	-	-	6,970	6,680	-	-
Commercial property services	-	-	-	-	8,258	12,069
Other commercial and industrial	-	-	67	107	2,481	4,647
Total	43,359	37,698	40,580	41,944	12,205	19,428

Geographical concentrations of financial assets

The following tables show the geographical concentrations of financial assets as at 30 September:

Group	Australia		Europe		New Zealand		United States		Asia	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cash and liquid assets	6,583	9,180	11,148	8,900	541	176	11,326	6,530	8	7
Due from other banks	12,297	12,414	11,895	30,693	1,975	1,463	17,472	4,105	1,597	1,920
Trading derivatives ⁽¹⁾	15,725	53,863	22,113	19,123	5,131	5,116	-	15	162	267
Trading securities	40,827	37,860	728	652	4,416	4,425	-	-	-	-
Debt instruments at fair value through other comprehensive income	29,075	30,066	5,875	9,805	-	-	3,062	2,853	2,677	2,465
Investments relating to life insurance business	-	89,275	-	-	86	75	-	-	-	-
Other financial assets at fair value	14,538	18,270	37	2,824	6,650	8,012	271	590	-	-
Hedging derivatives ⁽¹⁾	6,148	11,277	69	203	190	119	-	-	-	-
Loans and advances ⁽²⁾	431,055	399,742	4,805	66,009	65,619	55,526	2,890	2,263	5,676	9,244
Due from customers on acceptances	12,205	19,428	-	9	-	-	-	-	-	-
Other assets ^{(1) (3)}	2,653	3,846	6,705	6,072	1,070	864	40	26	458	42
Total	571,106	685,221	63,375	144,290	85,678	75,776	35,061	16,382	10,578	13,945

⁽¹⁾ The Group has applied offsetting of financial assets and liabilities in respect of certain centrally cleared derivatives and their associated collateral amounts which were deemed to satisfy the AASB 132 'Financial Instruments: Presentation' requirements for the Company. For the purposes of this disclosure, all netting is reflected in aggregate at the Company level and the full netting impact is therefore allocated to the Australia region. Refer to the Offsetting of financial assets and liabilities disclosure on page 115 for further details. Prior year comparatives have not been restated.

⁽²⁾ Loans and advances are disclosed on a total net basis.

⁽³⁾ Other assets for the year to September 2015 have been restated to include various other financial assets following a change in methodology.

Company	Australia		Europe		United States		Asia	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cash and liquid assets	5,423	8,106	11,099	8,792	11,296	6,508	4	2
Due from other banks	12,398	12,502	11,895	19,176	17,469	4,102	1,597	1,918
Trading derivatives ⁽¹⁾	19,429	58,441	22,849	20,348	-	93	162	267
Trading securities	40,785	37,860	728	652	-	-	-	-
Debt instruments at fair value through other comprehensive income	29,076	30,066	5,875	6,681	2,952	2,731	2,677	2,466
Other financial assets at fair value	14,523	18,253	37	461	271	590	-	-
Hedging derivatives ⁽¹⁾	5,927	11,114	69	105	-	-	-	-
Loans and advances ⁽²⁾	428,406	396,248	4,349	6,234	2,890	2,263	5,676	9,244
Due from customers on acceptances	12,205	19,428	-	-	-	-	-	-
Other assets ^{(1) (3)}	2,339	2,921	6,703	5,524	33	23	192	42
Total	570,511	594,939	63,604	67,973	34,911	16,310	10,308	13,939

⁽¹⁾ The Group has applied offsetting of financial assets and liabilities in respect of certain centrally cleared derivatives and their associated collateral amounts which were deemed to satisfy the AASB 132 'Financial Instruments: Presentation' requirements for the Company. For the purposes of this disclosure, all netting is reflected in aggregate at the Company level and the full netting impact is therefore allocated to the Australia region. Refer to the Offsetting of financial assets and liabilities disclosure on page 115 for further details. Prior year comparatives have not been restated.

⁽²⁾ Loans and advances are disclosed on a total net basis.

⁽³⁾ Other assets for the year to September 2015 have been restated to include various other financial assets following a change in methodology.

Notes to the financial statements

Risk disclosures (continued)

Market risk - trading

Traded Market Risk is the potential for gains or losses to arise from trading activities undertaken by the Group as a result of movements in market prices. The trading activities of the Group are principally carried out by Product & Markets (P&M) Fixed Income, Currencies & Commodities (FICC).

Trading activity represents dealings that encompass both active management of market risk and supporting client sales businesses. The types of market risk arising from these activities include interest rate, foreign exchange, commodity, equity price, credit spread and volatility risk.

Traded Market Risk is primarily managed and controlled using Value at Risk (VaR) which is a standard measure used in the industry, and is subject to the disciplines prescribed in the Group Traded Market Risk Policy.

Objectives and limitations of the Value at Risk methodology

VaR is a statistical estimate of the potential loss that could arise from shifts in interest rates, currency exchange rates, option volatility, equity prices, credit spreads, commodity prices and inflation. The estimate is calculated on an entire trading portfolio basis, including both physical and derivative positions. VaR is measured at a 99% confidence interval. This means that there is a 99% chance that the loss will not exceed the VaR estimate on any given day.

VaR is predominantly calculated using historical simulation. This method involves multiple revaluations of the trading books using 550 days (approximately two years) of historical pricing shifts. The pricing data is rolled daily so as to have the most recent 550 day history of prices. The results are ranked and the loss at the 99th percentile confidence interval identified. The calculation and rate shifts used assume a one day holding period for all positions.

The Group employs other risk measures to supplement VaR, with appropriate limits to manage and control risks, and communicate the specific nature of market exposures to executive management, the Risk Committee of the Board and ultimately the Board. These supplementary measures include stress testing, stop loss, position and sensitivity limits.

The use of a VaR methodology has limitations, which include:

- The historical data used to calculate VaR is not always an appropriate proxy for current market conditions. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than the VaR measure suggests.
- VaR methodology assumes that positions are held for one day and may underestimate losses on positions that cannot be hedged or reversed inside that timeframe.
- VaR is calculated on positions at the close of each trading day, and does not measure risk on intra-day positions.
- VaR does not describe the directional bias or size of the positions generating the risk.

VaR estimates are checked via backtesting for reasonableness and continued relevance of the model assumptions.

VaR is measured individually for foreign exchange risk, interest rate risk, volatility risk, commodities risk, credit risk and inflation risk. Risk limits are applied in these categories separately, and against the total risk position.

Value at Risk for physical and derivative positions

The following table shows the Group and Company VaR for the trading portfolio, including both physical and derivative positions:

Group	As at 30 September		Average value during reporting period		Minimum value during reporting period ⁽¹⁾		Maximum value during reporting period ⁽¹⁾	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Value at Risk at a 99% confidence level								
Foreign exchange risk	15.5	10.3	14.5	3.9	10.8	0.8	19.2	11.5
Interest rate risk	8.0	6.2	8.4	6.0	6.4	3.4	11.4	13.2
Volatility risk	2.6	2.5	3.0	2.2	2.1	1.2	4.4	4.1
Commodities risk	0.7	0.5	0.6	0.4	0.4	0.1	0.9	0.7
Credit risk	1.4	1.5	1.4	2.6	0.7	1.5	1.9	3.5
Inflation risk	2.5	0.4	0.7	0.6	0.4	0.2	2.5	1.4
Diversification benefit	(14.6)	(8.5)	(13.7)	(7.6)	n/a	n/a	n/a	n/a
Total Diversified VaR at 99% confidence interval	16.1	12.9	14.9	8.1	10.8	4.9	19.6	14.0
Other market risks ⁽²⁾	0.1	0.1	0.2	0.4	0.1	0.1	0.4	0.9
Total VaR for physical and derivative positions ⁽³⁾	16.2	13.0	15.1	8.5	10.9	5.0	20.0	14.9

⁽¹⁾ The maximum/minimum by risk types are likely to occur during different days in the period. As such, the sum of these figures will not equal the total maximum/minimum VaR, which is the maximum/minimum aggregate VaR position during the period.

⁽²⁾ Other market risks includes exposures to various basis risks measured individually at a portfolio level.

⁽³⁾ VaR is measured individually for foreign exchange risk, interest rate risk, volatility risk, commodities risk, credit risk, and inflation risk. Risk limits are applied in these categories separately, and against the total risk position.

Notes to the financial statements

Risk disclosures (continued)

Company	As at 30 September		Average value during reporting period		Minimum value during reporting period ⁽¹⁾		Maximum value during reporting period ⁽¹⁾	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Value at Risk at a 99% confidence level								
Foreign exchange risk	15.5	10.2	14.5	3.8	10.8	0.8	19.3	11.5
Interest rate risk	7.8	6.5	8.5	5.8	6.7	3.1	11.4	10.1
Volatility risk	2.6	2.5	3.0	2.2	2.1	1.2	4.4	4.1
Commodities risk	0.7	0.5	0.6	0.4	0.4	0.1	0.9	0.7
Credit risk	1.2	1.4	1.2	2.3	0.5	1.3	1.6	3.3
Inflation risk	2.6	0.4	0.7	0.6	0.4	0.2	2.6	1.4
Diversification benefit	(14.0)	(8.5)	(13.6)	(7.2)	n/a	n/a	n/a	n/a
Total Diversified VaR at 99% confidence interval	16.4	13.0	14.9	7.9	10.6	4.6	19.3	13.3
Other market risks ⁽²⁾	0.1	0.1	0.2	0.4	0.1	0.1	0.4	0.9
Total VaR for physical and derivative positions ⁽³⁾	16.5	13.1	15.1	8.3	10.7	4.7	19.7	14.2

⁽¹⁾ The maximum/minimum by risk types are likely to occur during different days in the period. As such, the sum of these figures will not equal the total maximum/minimum VaR, which is the maximum/minimum aggregate VaR position during the period.

⁽²⁾ Other market risks includes exposures to various basis risks measured individually at a portfolio level.

⁽³⁾ VaR is measured individually for foreign exchange risk, interest rate risk, volatility risk, commodities risk, credit risk, and inflation risk. Risk limits are applied in these categories separately, and against the total risk position.

Market risk - non-trading / banking positions

The Group has exposure to non-traded market risk, primarily Interest Rate Risk in the Banking Book (IRRBB).

Interest Rate Risk in the Banking Book

IRRBB is the risk that the Group's earnings or economic value will be affected or reduced due to changes in interest rates. The sources of IRRBB are as follows:

- Repricing risk, arising from changes to the overall level of interest rates and inherent mismatches in the repricing term of banking book items.
- Yield curve risk, arising from a change in the relative level of interest rates for different tenors and changes in the slope or shape of the yield curve.
- Basis risk, arising from differences between the actual and expected interest margins on banking book items over the implied cost of funds of those items.
- Optionality risk, arising from the existence of stand-alone or embedded options in banking book items, to the extent that the potential for those losses is not included in the above risk types.

IRRBB is measured, monitored, and managed from both an internal management and regulatory perspective. The risk management framework incorporates both market valuation and earnings based approaches in accordance with the IRRBB Policy and Guidance Notes. Risk measurement techniques include VaR, Earnings at Risk (EaR), interest rate risk stress testing, repricing analysis, cash flow analysis and scenario analysis. The IRRBB regulatory capital calculation incorporates repricing, yield curve, basis, and optionality risk, embedded gains/losses and any inter-risk and/or inter-currency diversification. The IRRBB risk and control framework achieved APRA accreditation for the internal model approach under Basel II, and is used to calculate the IRRBB regulatory capital requirement.

Key features of the internal interest rate risk management model include:

- Historical simulation approach utilising instantaneous interest rate shocks.
- Static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing).
- VaR and EaR are measured on a consistent basis.
- 99% confidence level.
- Three month holding period.
- EaR utilises a 12 month forecast period.
- At least six years of business day historical data (updated daily).
- Investment term for capital is modelled with an established benchmark term of between one and five years.
- Investment term for core 'Non-Bearing Interest' (non-interest bearing assets and liabilities) is modelled on a behavioural basis with a term that is consistent with sound statistical analysis.

Model parameters and assumptions are reviewed and updated on at least an annual basis by Group Treasury in consultation with Group Risk. Material changes require the approval of the Group Asset and Liability Committee (GALCO) and are advised to the local regulatory authorities.

Notes to the financial statements

Risk disclosures (continued)

Value at Risk and Earnings at Risk for the IRRBB

The following tables show the Group and Company aggregate VaR and EaR for the IRRBB:

Group	2016			
	As at 30 September \$m	Average value \$m	Minimum value \$m	Maximum value \$m
Value at risk				
Australia Region	64.1	65.7	47.4	90.1
UK Region	12.9	30.6	10.3	72.6
Other ⁽¹⁾	9.8	19.2	9.8	32.8
Earnings at risk⁽²⁾				
Australia Region	40.3	51.0	28.6	79.0
UK Region	-	5.9	-	22.5
Other ⁽³⁾	4	9.3	4	14.8

⁽¹⁾ Other comprises New Zealand, United States and Asia regions for the Group VaR. Other comprises United States and Asia regions for the Company VaR.

⁽²⁾ EaR amounts calculated under the IRRBB model include Australian Banking and other overseas banking subsidiary books, however excludes offshore branches. The Australia Region amount shows a centralised Australian Banking EaR reported within NAB.

⁽³⁾ Other comprises New Zealand and United States regions for the Group EaR.

Group	2015			
	As at 30 September \$m	Average value \$m	Minimum value \$m	Maximum value \$m
Value at risk				
Australia Region	70.5	62.2	46.2	80.0
UK Region	68.1	58.8	47.9	68.1
Other ⁽¹⁾	12.5	27.7	11.7	37.2
Earnings at risk⁽²⁾				
Australia Region	84.8	59.6	19.8	96.4
UK Region	19.3	10.6	4.6	19.3
Other ⁽³⁾	10.5	25.1	10.5	38.6

⁽¹⁾ Other comprises New Zealand, United States and Asia regions for the Group VaR. Other comprises United States and Asia regions for the Company VaR.

⁽²⁾ EaR amounts calculated under the IRRBB model include Australian Banking and other overseas banking subsidiary books, however excludes offshore branches. The Australia Region amount shows a centralised Australian Banking EaR reported within NAB.

⁽³⁾ Other comprises New Zealand and United States regions for the Group EaR.

Company	2016			
	As at 30 September \$m	Average value \$m	Minimum value \$m	Maximum value \$m
Value at Risk				
Australia Region	64.1	65.7	47.4	90.1
UK Region	12.9	11.6	9.5	14.2
Other ⁽¹⁾	5.7	5.5	2.0	9.7
Earnings at risk⁽²⁾				
Australia Region	40.3	51.0	28.6	79.0

⁽¹⁾ Other comprises United States and Asia regions for the Company VaR.

⁽²⁾ EaR amounts calculated under the IRRBB model for the Australia Region show a centralised Australian Banking EaR reported within NAB, excluding offshore branches.

Company	2015			
	As at 30 September \$m	Average value \$m	Minimum value \$m	Maximum value \$m
Value at Risk				
Australia Region	70.5	62.2	46.2	80.0
UK Region	9.9	8.8	7.6	10.9
Other ⁽¹⁾	3.7	2.8	2.1	3.7
Earnings at risk⁽²⁾				
Australia Region	84.8	59.6	19.8	96.4

⁽¹⁾ Other comprises United States and Asia regions for the Company VaR.

⁽²⁾ EaR amounts calculated under the IRRBB model for the Australia Region show a centralised Australian Banking EaR reported within NAB, excluding offshore branches.

Notes to the financial statements

Risk disclosures (continued)

Market risk - Wealth Management

This is the potential for losses to arise from the Group's wealth management business activities as a result of its investments being exposed to market risk. Wealth Management refers to the National Wealth Management Holdings Limited consolidated group (NWMHL) which has non-investment business. Investment assets, and associated policyholder liabilities, have been significantly reduced on the Group's balance sheet during the year as a result of the Successor Fund Merger and the sale of 80% of NAB Wealth's life insurance business.

For investment linked business, during the financial year, the policyholder liabilities were directly linked to the performance of the assets held to back those liabilities. Consequently, financial risks associated with those assets do not flow through to Wealth Management. However, a decline in the performance of investments would reduce the value of funds under management which, in turn, would reduce the fee income earned from this type of business. A significant proportion of Wealth Management's business has been investment linked business. For non-investment linked business, Wealth Management is exposed to market risk, however the risks in this business have been substantially reduced due to the Successor Fund Merger and only comprise of minimal interest rate related risk exposures on debt instruments.

Overall, both during the financial year and as at the reporting date, market risk in the Group's wealth management business was not considered to be significant to the Group.

Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations mostly include the repayment of deposits on demand or at their contractual maturity, the repayment of wholesale borrowings and loan capital as they mature and the payment of interest on borrowings. The liquidity associated with financial markets can be reduced substantially as a result of external economic or market events, market size or the actions of individual participants.

These risks are governed by the Group's funding and liquidity risk appetite which is set by the Board. This is managed by Group Treasury and measured and monitored by Group Balance Sheet and Liquidity Risk with oversight by the Group Asset and Liability Committee (GALCO). The Board has the ultimate responsibility to monitor and review the adequacy of the Group's funding and liquidity risk management framework and the Group's compliance with risk appetite.

Key principles adopted in the Group's approach to managing liquidity risk include:

- Monitoring the Group's liquidity position on a daily basis, using a combination of contractual and behavioural modelling of balance sheet and cash flow information.
- Maintaining a high quality liquid asset portfolio which supports intra-day operations and can be sold in times of market stress.
- Operating a prudent funding strategy which ensures appropriate diversification and limits maturity concentrations. The Group undertakes a conservative approach by imposing internal limits that are in addition to regulatory requirements.
- Maintaining a contingent funding plan designed to respond to the event of an accelerated outflow of funds from the Group.
- Requiring the Group to have the ability to meet a range of survival horizon scenarios, including name-specific and general liquidity stress scenarios.

The liquid asset portfolio held as part of these principles is well diversified by currency, tenor, counterparty and product type. The composition of the portfolio includes cash and Government, State Government and highly rated investment grade paper. The total liquid assets held at 30 September 2016 was \$118,268 million (2015: \$123,603 million). In addition to these liquid assets, the Group holds Internal Securitisations in the form of Residential Mortgage Backed Securities (RMBS) as a source of contingent liquidity to further support its liquidity requirements. RMBS must meet central bank requirements to be eligible for repurchase agreements with a central bank. As at 30 September 2016 the amount of eligible internal RMBS held was \$46,737 million (2015: \$43,558 million).

Funding mix

The Group's funding liabilities are comprised of a mix of deposits, term wholesale funding and short-term wholesale funding. The Group manages funding mix and liquidity profile within risk appetite settings to ensure suitable funding of its asset base and to enable it to respond to changing market conditions.

The Group maintains a strong focus on deposits both from a growth and quality perspective and continues to source deposits as a key stable funding source for lending with \$28,469 million (2015: \$27,844 million) raised for the financial year versus \$23,879 million (2015: \$38,786 million) of loan growth. These balances exclude the impact of CYBG, which was demerged on 8 February 2016.

The Group supplements deposits raising via its term funding programmes, raising \$36,403 million of term wholesale funding in the 2016 financial year (2015: \$26,539 million) at a weighted average maturity of approximately 5.4 years to first call (2015: 4.7 years). In addition, throughout 2016, the Group continued to access international and domestic short-term wholesale markets.

Notes to the financial statements

Risk disclosures (continued)

The following table shows the Group's funding position as at 30 September:

	2016 ⁽¹⁾	2015
	\$m	\$m
Core assets		
Gross loan and advances	513,691	537,165
Loans at fair value	19,864	27,545
Other financial assets at fair value	271	590
Due from customers on acceptances	12,205	19,437
Other debt instruments at amortised cost	778	618
Total core assets	546,809	585,355
Customer deposits		
On-demand and short-term deposits	189,718	216,530
Term deposits	153,181	157,572
Deposits not bearing interest	41,698	41,138
Customer deposits at fair value	5,904	3,658
Total customer deposits	390,501	418,898

⁽¹⁾ Information is presented on a continuing operations basis with no restatement of prior period comparisons.

	2016 ⁽¹⁾	2015
	\$m	\$m
Wholesale funding		
Bonds, notes and subordinated debt	127,942	130,518
Other debt issues	6,248	6,292
Preference shares and other contributed equity	3,317	3,317
Certificates of deposit	43,763	38,691
Securities sold under repurchase agreements	16,064	8,917
Due to other banks - Securities sold under repurchase agreements	18,358	24,275
Due to other banks - Other	25,545	30,130
Other borrowings	15,290	26,162
Other financial liabilities at fair value	27,320	26,388
Total wholesale funding	283,847	294,690
Total funding liabilities	674,348	713,588
Total equity excluding preference shares and other contributed equity	47,998	52,196
Life insurance liabilities ⁽²⁾	-	90,831
Other liabilities	55,276	98,437
Total liabilities and equity	777,622	955,052

Wholesale funding by maturity

Short-term funding	126,643	135,092
Term funding		
less than 1 year residual maturity	37,160	37,893
greater than 1 year residual maturity	120,044	121,705
Total wholesale funding by maturity	283,847	294,690

⁽¹⁾ Information is presented on a continuing operations basis with no restatement of prior period comparisons.

⁽²⁾ Comprises life policy liabilities and external unitholders' liability. Following the sale of 80% of NAB Wealth's life insurance business and the Successor Fund Merger, these liabilities have been reduced to nil on the Group's balance sheet.

Notes to the financial statements

Risk disclosures (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The following tables show cash flows associated with non-derivative financial liabilities and hedging derivatives, within relevant maturity groupings based on the earliest date on which the Group and Company may be required to pay.

The balances in the tables below will not necessarily correspond to amounts presented on the balance sheet as the balances in the tables below incorporate cash flows on an undiscounted basis and therefore include both principal and associated future interest payments.

Group	2016						Total \$m
	At call \$m	0 to 3 month(s) \$m	3 to 12 months \$m	1 to 5 year(s) \$m	Over 5 years \$m	No specific maturity \$m	
Due to other banks	11,915	28,716	3,322	-	-	-	43,953
Other financial liabilities at fair value	609	6,721	8,200	15,559	3,498	22	34,609
Deposits	223,968	121,661	80,334	7,011	-	-	432,974
Other borrowings	40	23,342	8,010	-	-	-	31,392
Life investment contract liabilities	-	-	-	-	-	-	-
Bonds, notes and subordinated debt	-	4,001	28,217	76,127	26,444	-	134,789
Other debt issues	-	-	-	-	-	6,248	6,248
External unitholders' liability	-	-	-	-	-	-	-
Other financial liabilities	446	6,242	-	-	52	-	6,740
Hedging derivatives							
- contractual amounts payable	-	309	962	7,196	5,652	-	14,119
- contractual amounts receivable	-	(89)	(290)	(4,234)	(4,543)	-	(9,156)
Total cash flow payable	236,978	190,903	128,755	101,659	31,103	6,270	695,668
Contingent liabilities	18,905	-	-	-	-	-	18,905
Credit-related commitments	146,803	-	-	-	-	-	146,803
Total ⁽¹⁾	165,708	-	-	-	-	-	165,708

⁽¹⁾ The full notional amount of contingent liabilities and credit-related commitments have been disclosed as 'at-call' as they could be payable on demand. The Group expects that not all of the contingent liabilities or commitments will be drawn before their contractual expiry.

Group	2015						Total \$m
	At call \$m	0 to 3 month(s) \$m	3 to 12 months \$m	1 to 5 year(s) \$m	Over 5 years \$m	No specific maturity \$m	
Due to other banks	19,158	33,424	1,581	294	-	-	54,457
Other financial liabilities at fair value	413	5,625	7,159	14,887	3,866	44	31,994
Deposits	256,109	121,984	68,264	10,276	-	-	456,633
Other borrowings	178	24,657	10,264	-	-	-	35,099
Life investment contract liabilities	-	206	302	54	6	73,016	73,584
Bonds, notes and subordinated debt	-	3,294	27,560	80,992	27,233	-	139,079
Other debt issues	-	-	-	-	-	6,292	6,292
External unitholders' liability	-	-	-	-	-	14,520	14,520
Other financial liabilities ⁽¹⁾	4,482	7,288	-	-	26	-	11,796
Hedging derivatives							
- contractual amounts payable	-	390	1,290	7,690	14,342	-	23,712
- contractual amounts receivable	-	(155)	(490)	(4,632)	(11,870)	-	(17,147)
Total cash flow payable	280,340	196,713	115,930	109,561	33,603	93,872	830,019
Contingent liabilities	18,944	-	-	-	-	-	18,944
Credit-related commitments and investment commitments ⁽²⁾	158,961	-	-	-	-	-	158,961
Total ⁽³⁾	177,905	-	-	-	-	-	177,905

⁽¹⁾ Other financial liabilities for the year to September 2015 have been restated to include various other financial liabilities following a change in methodology.

⁽²⁾ Credit-related commitments for the year to September 2015 have been restated to include housing redraw facilities following a change in methodology.

⁽³⁾ The full notional amount of contingent liabilities, credit-related commitments and investment commitments have been disclosed as 'at-call' as they could be payable on demand. The Group expects that not all of the contingent liabilities or commitments will be drawn before their contractual expiry.

Notes to the financial statements

Risk disclosures (continued)

Company	2016						Total \$m
	At call \$m	0 to 3 month(s) \$m	3 to 12 months \$m	1 to 5 year(s) \$m	Over 5 years \$m	No specific maturity \$m	
Due to other banks	11,106	28,271	3,322	-	-	-	42,699
Other financial liabilities at fair value	284	205	1,319	1,665	2,605	22	6,100
Deposits	201,702	113,581	69,454	4,599	-	-	389,336
Other borrowings	41	23,073	7,977	-	-	-	31,091
Bonds, notes and subordinated debt	-	3,989	28,203	75,320	22,661	-	130,173
Other debt issues	-	-	-	-	-	6,248	6,248
Other financial liabilities	439	5,661	-	-	53	-	6,153
Hedging derivatives							
- contractual amounts payable	-	374	4,867	15,075	11,365	-	31,681
- contractual amounts receivable	-	(185)	(3,237)	(10,856)	(9,680)	-	(23,958)
Total cash flow payable	213,572	174,969	111,905	85,803	27,004	6,270	619,523
Contingent liabilities	18,037	-	-	-	-	-	18,037
Credit-related commitments	129,489	-	-	-	-	-	129,489
Total ⁽¹⁾	147,526	-	-	-	-	-	147,526

⁽¹⁾ The full notional amount of contingent liabilities and credit-related commitments have been disclosed as 'at-call' as they could be payable on demand. The Group expects that not all of the contingent liabilities or commitments will be drawn before their contractual expiry.

Company	2015						Total \$m
	At call \$m	0 to 3 month(s) \$m	3 to 12 months \$m	1 to 5 year(s) \$m	Over 5 years \$m	No specific maturity \$m	
Due to other banks	18,310	32,030	1,569	71	-	-	51,980
Other financial liabilities at fair value	227	216	1,906	2,626	3,240	44	8,259
Deposits	192,245	111,325	54,155	2,516	-	-	360,241
Other borrowings	178	23,371	10,193	-	-	-	33,742
Bonds, notes and subordinated debt	-	3,247	25,283	75,413	22,721	-	126,664
Other debt issues	-	-	-	-	-	5,652	5,652
Other financial liabilities ⁽¹⁾	602	5,699	-	-	26	-	6,327
Hedging derivatives							
- contractual amounts payable	-	345	2,438	17,544	19,888	-	40,215
- contractual amounts receivable	-	(206)	(1,533)	(12,061)	(16,876)	-	(30,676)
Total cash flow payable	211,562	176,027	94,011	86,109	28,999	5,696	602,404
Contingent liabilities	18,112	-	-	-	-	-	18,112
Credit-related commitments and investment commitments ⁽²⁾	126,545	-	-	-	-	-	126,545
Total ⁽³⁾	144,657	-	-	-	-	-	144,657

⁽¹⁾ Other financial liabilities for the year to September 2015 have been restated to include various other financial liabilities following a change in methodology.

⁽²⁾ Credit-related commitments for the year to September 2015 have been restated to include housing redraw facilities following a change in methodology.

⁽³⁾ The full notional amount of contingent liabilities, credit-related commitments and investment commitments have been disclosed as 'at-call' as they could be payable on demand. The Group expects that not all of the contingent liabilities or commitments will be drawn before their contractual expiry.

Contractual maturity of assets and liabilities

The following tables show an analysis of contractual maturities of assets and liabilities at the reporting date. The Group expects that certain assets and liabilities will be recovered or settled at maturities which are different to their contractual maturities, including deposits where the Group expects as part of normal banking operations that a large proportion of these balances will roll over.

Notes to the financial statements

Risk disclosures (continued)

Group	2016			Total \$m
	Less than 12 months \$m	Greater than 12 months \$m	No specific maturity \$m	
Assets				
Cash and liquid assets	30,630	-	-	30,630
Due from other banks	42,926	2,310	-	45,236
Trading derivatives ⁽¹⁾	-	-	43,131	43,131
Trading securities	11,867	33,612	492	45,971
Debt instruments at fair value through other comprehensive income	6,971	33,718	-	40,689
Investments relating to life insurance business	-	-	86	86
Other financial assets at fair value	6,724	14,757	15	21,496
Loans and advances	93,188	409,339	7,518	510,045
Due from customers on acceptances	12,205	-	-	12,205
All other assets	11,863	6,352	9,918	28,133
Total assets	216,374	500,088	61,160	777,622
Liabilities				
Due to other banks	43,903	-	-	43,903
Trading derivatives ⁽¹⁾	-	-	41,654	41,654
Other financial liabilities at fair value	14,714	18,488	22	33,224
Deposits	421,982	6,378	-	428,360
Other borrowings	31,354	-	-	31,354
Bonds, notes and subordinated debt	29,703	98,239	-	127,942
Other debt issues	-	-	6,248	6,248
All other liabilities	8,985	3,022	1,615	13,622
Total liabilities	550,641	126,127	49,539	726,307
Net (liabilities) / assets	(334,267)	373,961	11,621	51,315

⁽¹⁾ Trading derivatives have not been shown by contractual maturity because they are typically held for varying periods of time.

Group	2015			Total \$m
	Less than 12 months \$m	Greater than 12 months \$m	No specific maturity \$m	
Assets				
Cash and liquid assets	30,934	-	-	30,934
Due from other banks	49,092	1,503	-	50,595
Trading derivatives ⁽¹⁾	-	-	78,384	78,384
Trading securities	11,391	31,444	102	42,937
Debt instruments at fair value through other comprehensive income	6,965	38,224	-	45,189
Investments relating to life insurance business	10,693	14,152	64,505	89,350
Other financial assets at fair value	7,766	21,913	17	29,696
Loans and advances	92,537	432,169	8,078	532,784
Due from customers on acceptances	19,437	-	-	19,437
All other assets	11,903	10,963	12,880	35,746
Total assets	240,718	550,368	163,966	955,052
Liabilities				
Due to other banks	54,114	291	-	54,405
Trading derivatives ⁽¹⁾	-	-	74,442	74,442
Other financial liabilities at fair value	12,103	17,899	44	30,046
Deposits	444,041	9,890	-	453,931
Other borrowings	35,079	-	-	35,079
Life insurance contract liabilities ⁽²⁾	-	-	2,731	2,731
Life investment contract liabilities ⁽³⁾	508	56	73,016	73,580
Bonds, notes and subordinated debt	28,162	102,356	-	130,518
Other debt issues	-	-	6,292	6,292
All other liabilities	14,865	4,519	19,131	38,515
Total liabilities	588,872	135,011	175,656	899,539
Net (liabilities) / assets	(348,154)	415,357	(11,690)	55,513

⁽¹⁾ Trading derivatives have not been shown by contractual maturity because they are typically held for varying periods of time.

⁽²⁾ Life insurance contract liabilities do not have a fixed maturity date. At 30 September 2015, based on the Group's assumptions as to likely withdrawals and claim patterns, \$1,095 million was estimated to be settled at within 12 months from the reporting date. The full balance of these liabilities has been removed from the Group's balance sheet during the current financial year as a result of the Successor Fund Merger and the sale of 80% of NAB Wealth's life insurance business.

⁽³⁾ Life investment contract liabilities disclosed as 'no specific maturity' included investment-linked contracts of \$72,829 million at 30 September 2015. The liability to policyholders for investment-linked contracts is linked to the performance and value of the assets that back those liabilities, and liquidity risk is borne by the policyholder based on the ability to liquidate assets that back those liabilities in a timely manner to meet redemption requirements. Non-linked investment contracts, such as term annuities, primarily have contractual maturities. The full balance of these liabilities has been removed from the Group's balance sheet during the current financial year as a result of the Successor Fund Merger and the sale of 80% of NAB Wealth's life insurance business.

Notes to the financial statements

Risk disclosures (continued)

Company	2016			Total \$m
	Less than 12 months \$m	Greater than 12 months \$m	No specific maturity \$m	
Assets				
Cash and liquid assets	28,717	-	-	28,717
Due from other banks	41,049	2,310	-	43,359
Trading derivatives ⁽¹⁾	-	-	42,440	42,440
Trading securities	9,680	31,383	450	41,513
Debt instruments at fair value through other comprehensive income	6,970	33,610	-	40,580
Other financial assets at fair value	4,315	10,516	-	14,831
Loans and advances	76,074	358,808	6,439	441,321
Due from customers on acceptances	12,205	-	-	12,205
All other assets	10,915	5,207	133,247	149,369
Total assets	189,925	441,834	182,576	814,335
Liabilities				
Due to other banks	42,649	-	-	42,649
Trading derivatives ⁽¹⁾	-	-	38,949	38,949
Other financial liabilities at fair value	1,480	3,906	22	5,408
Deposits	381,074	4,113	-	385,187
Other borrowings	31,054	-	-	31,054
Bonds, notes and subordinated debt	29,703	93,523	-	123,226
Other debt issues	-	-	6,248	6,248
All other liabilities	8,815	5,567	118,680	133,062
Total liabilities	494,775	107,109	163,899	765,783
Net (liabilities) / assets	(304,850)	334,725	18,677	48,552

⁽¹⁾ Trading derivatives have not been shown by contractual maturity because they are typically held for varying periods of time.

Company	2015			Total \$m
	Less than 12 months \$m	Greater than 12 months \$m	No specific maturity \$m	
Assets				
Cash and liquid assets	24,308	-	-	24,308
Due from other banks	36,195	1,503	-	37,698
Trading derivatives ⁽¹⁾	-	-	79,149	79,149
Trading securities	8,390	30,020	102	38,512
Debt instruments at fair value through other comprehensive income	6,738	35,206	-	41,944
Other financial assets at fair value	5,044	14,260	-	19,304
Loans and advances	71,270	336,501	6,218	413,989
Due from customers on acceptances	19,428	-	-	19,428
All other assets	10,383	10,007	134,981	155,371
Total assets	181,756	427,497	220,450	829,703
Liabilities				
Due to other banks	51,867	71	-	51,938
Trading derivatives ⁽¹⁾	-	-	73,459	73,459
Other financial liabilities at fair value	1,769	5,145	44	6,958
Deposits	355,769	2,293	-	358,062
Other borrowings	33,723	-	-	33,723
Bonds, notes and subordinated debt	26,019	93,117	-	119,136
Other debt issues	-	-	5,652	5,652
All other liabilities	8,669	8,519	108,370	125,558
Total liabilities	477,816	109,145	187,525	774,486
Net (liabilities) / assets	(296,060)	318,352	32,925	55,217

⁽¹⁾ Trading derivatives have not been shown by contractual maturity because they are typically held for varying periods of time.

Notes to the financial statements

Risk disclosures (continued)

Hedge accounting

(a) Fair value hedges

The Group hedges part of its existing interest rate and foreign currency risk resulting from potential movements in the fair value of fixed rate assets and liabilities attributable to both interest rate and foreign currency risk denominated both in local and foreign currencies using interest rate, cross currency interest rate and cross currency swaps. The fair value of these swaps is disclosed in *Note 10 - Trading and hedging derivative assets and liabilities*. The carrying amount of the hedged items are included in the line item 'Bonds, notes and subordinated debt' on the balance sheet.

(b) Cash flow hedges

The Group hedges a portion of the variability in future cash flows attributable to the interest rate risk of variable rate assets and liabilities at any given time using derivatives such as interest rate swaps, forward rate agreements and futures contracts. The Group also utilises derivatives to hedge a portion of the variability in future cash flows attributable to foreign exchange risk created by assets, liabilities and forecast transactions denominated in a currency other than an entity's functional currency. The fair value of these hedges is disclosed in *Note 10 - Trading and hedging derivative assets and liabilities*.

There were no forecast transactions for which cash flow hedge accounting had to be ceased as a result of the forecast transaction no longer being expected to occur in the current or the prior period.

(c) Hedges of net investments in foreign operations

In order to protect against the Group's exposure to foreign exchange risk on investments, some of the Group's borrowings and foreign exchange forward contracts are designated as hedges of net investments.

Borrowings of GBP 1,018 million (2015: GBP 1,025 million) and foreign exchange forward contracts of GBP 714 million (2015: GBP 1,150 million) have been designated as a hedge of net investments in foreign operations with a GBP functional currency.

At 30 September 2016, there were no foreign exchange forward contracts of NZD (2015: NZD 450 million) which have been designated as a hedge of the spot foreign exchange risk arising on a net investment in foreign operations with a NZD functional currency.

Gains or losses on the translation of these borrowings and any effective portion of gains or losses on the forward contract hedging instruments are transferred to equity to the extent that they offset any gains or losses on translation of the net investment in the foreign operations. For the year ended 30 September 2016 there was no gain or loss due to hedge ineffectiveness (2015: nil) recognised in profit or loss related to net investment hedges.

Notes to the financial statements

Risk disclosures (continued)

34 Fair value of financial instruments

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

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

The carrying amounts of cash and liquid assets, due from and to other banks, due from customers on acceptances, other assets, other liabilities and amounts due from and to controlled entities, approximate their fair value as they are short-term in nature or are receivable or payable on demand. Guarantees, letters of credit, performance related contingencies and credit related commitments are generally not sold or traded and estimated fair values are not readily ascertainable. The fair value of these items was not calculated, as very few of the commitments extending beyond six months would commit the Company or the Group to a predetermined rate of interest, and the fees attaching to these commitments are the same as those currently charged for similar arrangements.

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring the fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

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

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

The fair value estimates are based on the following methodologies and assumptions:

- The fair value of **loans and advances** that are priced based on a variable rate with no contractual repricing tenor are assumed to equate to the carrying value. The fair value of all other loans and advances are generally calculated using discounted cash flow models based on the maturity of the loans and advances. The discount rates applied are based on interest rates at reporting date for similar types of loans and advances, if the loans and advances were performing at reporting date. The difference between estimated fair values of loans and advances and carrying value reflects changes in interest rates since loan or advance origination and credit worthiness of the borrower.
- The fair value of **deposits and other borrowings** that are non-interest-bearing, at call or at a fixed rate that reprice within six months of reporting date is assumed to equate to the carrying value. The fair value of other deposits and other borrowings is calculated using discounted cash flow models based on the deposit type and maturity.
- The fair values of **bonds, notes and subordinated debt** are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments and appropriate credit spreads; or in some instances are calculated based on market quoted prices when there is sufficient liquidity in the market.

Group	30 September 2016					30 September 2015				
	Carrying value	Fair Value			Total	Carrying value	Fair Value			Total
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Financial assets										
Loans and advances	510,045	-	6,559	504,456	511,015	532,784	-	8,859	525,020	533,879
Financial liabilities										
Deposits and other borrowings	459,714	-	460,027	-	460,027	489,010	-	489,473	-	489,473
Bonds, notes and subordinated debt	127,942	9,116	120,137	-	129,253	130,518	7,979	124,356	-	132,335

Company	30 September 2016					30 September 2015				
	Carrying value	Fair Value			Total	Carrying value	Fair Value			Total
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Financial assets										
Loans and advances	441,321	-	4,283	438,418	442,701	413,989	-	4,273	411,231	415,504
Financial liabilities										
Deposits and other borrowings	416,241	-	416,435	-	416,435	391,785	-	391,950	-	391,950
Bonds, notes and subordinated debt	123,226	8,578	116,149	-	124,727	119,136	7,979	112,696	-	120,675

Notes to the financial statements

Risk disclosures (continued)

(b) Fair value measurements recognised on the balance sheet

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, using a fair value hierarchy described in (a) above.

The fair value estimates are based on the following methodologies and assumptions:

- The fair values of **trading** and **hedging derivative** assets and liabilities, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from quoted closing market prices at reporting date, discounted cash flow models or option pricing models as appropriate.
- The fair values of **trading securities** and **debt instruments at fair value through other comprehensive income** are based on quoted closing market prices at reporting date. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity.
- The fair values of **other financial assets** and **liabilities at fair value** are based on quoted closing market prices and data or valuation techniques appropriate to the nature and type of the underlying instrument.

Group	Fair value measurement as at 30 September 2016				Fair value measurement as at 30 September 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Financial assets								
Trading derivatives	689	42,142	300	43,131	1,011	77,317	56	78,384
Trading securities	21,661	24,310	-	45,971	18,639	24,298	-	42,937
Debt instruments at fair value through other comprehensive income	2,852	37,563	274	40,689	5,166	40,018	5	45,189
Investments relating to life insurance business ^{(1) (2)}	-	86	-	86	814	85,153	3,383	89,350
Other financial assets at fair value	43	21,416	37	21,496	11	26,852	2,833	29,696
Hedging derivatives	-	6,407	-	6,407	-	11,599	-	11,599
Total financial assets measured at fair value	25,245	131,924	611	157,780	25,641	265,237	6,277	297,155
Financial liabilities								
Trading derivatives	771	40,628	255	41,654	1,184	73,258	-	74,442
Other financial liabilities at fair value	310	32,913	1	33,224	1,304	28,600	142	30,046
Hedging derivatives	-	3,245	-	3,245	-	4,539	-	4,539
Life investment contract liabilities ⁽²⁾	-	-	-	-	-	73,580	-	73,580
External unitholders' liability ⁽²⁾	-	-	-	-	-	14,520	-	14,520
Total financial liabilities measured at fair value	1,081	76,786	256	78,123	2,488	194,497	142	197,127

⁽¹⁾ Sovereign bonds held by managed investment schemes, previously reported as Level 1, were reclassified as Level 2. Accordingly, the comparative amounts have been restated by \$4,223 million to reflect this classification.

⁽²⁾ Includes the impact of the deconsolidation from the Successor Fund Merger, which completed on 1 July 2016 and sale of 80% of the NAB Wealth life insurance business. Refer to Note 41 - Discontinued operations for details.

Company	Fair value measurement as at 30 September 2016				Fair value measurement as at 30 September 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Financial assets								
Trading derivatives	687	41,453	300	42,440	1,011	78,082	56	79,149
Trading securities	18,640	22,873	-	41,513	16,272	22,240	-	38,512
Debt instruments at fair value through other comprehensive income	2,852	37,454	274	40,580	2,048	39,896	-	41,944
Other financial assets at fair value	-	14,794	37	14,831	-	18,833	471	19,304
Hedging derivatives	-	5,996	-	5,996	-	11,219	-	11,219
Total financial assets measured at fair value	22,179	122,570	611	145,360	19,331	170,270	527	190,128
Financial liabilities								
Trading derivatives	771	37,923	255	38,949	1,183	72,276	-	73,459
Other financial liabilities at fair value	310	5,097	1	5,408	1,304	5,654	-	6,958
Hedging derivatives	-	6,458	-	6,458	-	8,564	-	8,564
Total financial liabilities measured at fair value	1,081	49,478	256	50,815	2,487	86,494	-	88,981

There were no material transfers between Level 1 and Level 2 during the year for the Group and the Company.

Notes to the financial statements

Risk disclosures (continued)

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

Group	2016					
	Assets				Liabilities	
	Trading derivatives	Debt instruments at fair value through other comprehensive income	Investments relating to life insurance business	Other financial assets at fair value	Trading derivatives	Other financial liabilities at fair value
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at the beginning of year	56	5	3,383	2,833	-	142
Total gains / (losses)						
In profit or loss ⁽¹⁾	105	-	36	(26)	125	(1)
In other comprehensive income ⁽²⁾	-	(6)	-	-	-	-
Purchases and issues	192	124	256	-	164	-
Sales and settlements ⁽³⁾	-	-	(3,675)	(593)	-	(17)
Transfers into Level 3 ⁽⁴⁾	24	156	-	-	-	1
Transfers out of Level 3 ⁽⁴⁾	(38)	-	-	-	-	-
Foreign currency translation adjustments	(38)	(1)	-	(203)	(34)	(8)
Derecognised in respect of the disposal group	(1)	(4)	-	(1,974)	-	(116)
Balance at the end of year	300	274	-	37	255	1
Total gain / (losses) for the reporting period related to assets held at the end of the reporting period:						
- In profit or loss	105	-	-	(12)	125	-
- In other comprehensive income	-	(6)	-	-	-	-

⁽¹⁾ Net gains or losses were recorded in other operating income, interest expense or impairment losses as appropriate.

⁽²⁾ Net gains or losses were recorded in debt instruments at fair value through other comprehensive income reserve.

⁽³⁾ Of the sales and settlements of investments related to the life insurance business during the period, \$3,250 million was due to the transfer of assets under the Successor Fund Merger, which completed on 1 July 2016.

⁽⁴⁾ Transfers into Level 3 were due to the lack of observable inputs for valuation of certain financial instruments. Transfers out of Level 3 were due to the valuation inputs becoming observable during the period. Transfers between levels are deemed to have occurred at the beginning of the reporting period in which the instruments were transferred.

Group	2015					
	Assets				Liabilities	
	Trading derivatives	Debt instruments at fair value through other comprehensive income	Investments relating to life insurance business ⁽¹⁾	Other financial assets at fair value	Trading derivatives	Other financial liabilities at fair value
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at the beginning of year	18	-	2,638	3,834	7	164
Impact from adoption of new accounting standards	-	3	-	1,565	-	-
Total gains / (losses)						
In profit or loss ⁽²⁾	3	-	314	93	-	(4)
In other comprehensive income ⁽³⁾	-	-	-	-	-	-
Purchases and issues	-	3	725	-	-	-
Sales and settlements	(1)	(1)	(294)	(3,546)	(7)	(42)
Transfers into Level 3 ⁽⁴⁾	78	-	-	-	-	-
Transfers out of Level 3 ⁽⁴⁾	(43)	-	-	-	-	-
Foreign currency translation adjustments	1	-	-	887	-	24
Balance at the end of year	56	5	3,383	2,833	-	142
Total gains / (losses) for the reporting period related to assets held at the end of the reporting period:						
- In profit or loss	3	-	506	73	-	(4)

⁽¹⁾ The gains and losses associated with the changes in the fair value of the investments relating to life insurance business are offset by the movements in the fair value of the life investment contract liabilities which are classified as Level 2.

⁽²⁾ Net gains or losses were recorded in other operating income, interest income or interest expense or impairment losses as appropriate.

⁽³⁾ Net gains or losses were recorded in debt instruments at fair value through other comprehensive income reserve.

⁽⁴⁾ Transfers into Level 3 were due to the lack of observable inputs for valuation of certain financial instruments. Transfers out of Level 3 were due to the valuation inputs becoming observable during the period. Transfers between levels are deemed to have occurred at the beginning of the reporting period in which the instruments were transferred.

Notes to the financial statements

Risk disclosures (continued)

Company	2016				
	Assets			Liabilities	
	Trading derivatives	Debt instruments at fair value through other comprehensive income	Other financial assets at fair value	Trading derivatives	Other financial liabilities at fair value
	\$m	\$m	\$m	\$m	\$m
Balance at the beginning of year	56	-	471	-	-
Total gains / (losses)					
In profit or loss ⁽¹⁾	105	-	(12)	125	-
In other comprehensive income ⁽²⁾	-	(6)	-	-	-
Purchases and issues	192	124	-	164	-
Sales and settlements	-	-	(366)	-	-
Transfers into Level 3 ⁽³⁾	24	156	-	-	1
Transfers out of Level 3 ⁽³⁾	(38)	-	-	-	-
Foreign currency translation adjustments	(39)	-	(56)	(34)	-
Balance at the end of year	300	274	37	255	1
Total gains / (losses) for the reporting period related to assets held at the end of the reporting period:					
- In profit or loss	105	-	(12)	125	-
- In other comprehensive income	-	(6)	-	-	-

⁽¹⁾ Net gains or losses were recorded in other operating income, interest income or interest expense or impairment losses as appropriate.

⁽²⁾ Net gains or losses were recorded in debt instruments at fair value through other comprehensive income reserve.

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

Company	2015	
	Assets	
	Trading derivatives	Other financial assets at fair value
	\$m	\$m
Balance at the beginning of year	18	917
Impact from adoption of new accounting standards	-	1,565
Total gains / (losses)		
In profit or loss ⁽¹⁾	3	160
In other comprehensive income ⁽²⁾	-	-
Purchases and issues	-	-
Sales and settlements	(1)	(2,591)
Transfers into Level 3 ⁽³⁾	78	-
Transfers out of Level 3 ⁽³⁾	(43)	-
Foreign currency translation adjustments	1	420
Balance at the end of year	56	471
Total gains / (losses) for the reporting period related to assets held at the end of the reporting period:		
- In profit or loss	3	69

⁽¹⁾ Net gains or losses were recorded in other operating income, interest income or interest expense or impairment losses as appropriate.

⁽²⁾ Net gains or losses were recorded in debt instruments at fair value through other comprehensive income reserve.

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

Quantitative information about significant unobservable inputs in Level 3 valuations

The Group's exposure to Level 3 fair value measurements has been significantly reduced during the reporting period as a result of the CYBG demerger, the run off of the UK CRE portfolio and the Successor Fund Merger. Accordingly, there are no material remaining Level 3 valuations to warrant disclosure of information regarding significant unobservable inputs.

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

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

The Group has a limited remaining exposure to Level 3 fair value measurements, and changing one or more of the inputs for fair value measurements in Level 3 to reasonably alternative assumptions would not change the fair value significantly with respect to profit or loss, total assets, total liabilities or equity of the Group or Company in relation to these remaining Level 3 measurements.

Notes to the financial statements

Risk disclosures (continued)

35 Financial asset transfers and securitisations

The Group and the Company enter into transactions by which they transfer financial assets to counterparties or to special purpose entities (SPEs). Financial assets that do not qualify for derecognition are typically associated with repurchase agreements, covered bonds and securitisation program agreements. The following table sets out the carrying amount of financial assets that did not qualify for derecognition and their associated liabilities. Where relevant, the table also sets out the net position of the fair value of financial assets where the counterparty to the associated liabilities has recourse only to the transferred assets.

Group	2016			2015		
	Repurchase agreements \$m	Covered bonds \$m	Securitisation \$m	Repurchase agreements \$m	Covered bonds \$m	Securitisation \$m
Carrying amount of transferred assets	8,582	37,466	3,536	12,703	32,610	11,801
Carrying amount of associated liabilities	8,582	26,983	3,553	12,703	27,873	9,069
For those liabilities that have recourse only to the transferred assets						
Fair value of transferred assets			3,543			11,825
Fair value of associated liabilities			3,589			9,195
Net position			(46)			2,630

Company	2016			2015		
	Repurchase agreements \$m	Covered bonds \$m	Securitisation \$m	Repurchase agreements \$m	Covered bonds \$m	Securitisation \$m
Carrying amount of transferred assets	8,354	32,740	72,946	12,456	25,596	63,725
Carrying amount of associated liabilities	8,354	23,105	72,946	12,456	22,962	63,725
For those liabilities that have recourse only to the transferred assets						
Fair value of transferred assets			73,174			63,958
Fair value of associated liabilities			73,835			64,548
Net position			(661)			(590)

Repurchase agreements

Securities sold subject to repurchase agreements are retained in their respective balance sheet categories when substantially all the risks and rewards of ownership remain with the Company or the Group. The counterparty liability is included in amounts due to other banks and deposits and other borrowings, as appropriate, based upon the counterparty to the transaction.

Covered bonds

The Group engages in covered bonds programs for funding and liquidity purposes. Housing loans have been assigned to bankruptcy remote SPEs associated with covered bond programs to provide security for the obligations payable on the covered bonds issued by the Group. The Group is entitled to any residual income after all payments due to covered bonds investors have been met. The Group retains all of the risks and rewards associated with the housing loans and where derivatives have not been externalised, interest rate and foreign currency risk are held in the Group. The covered bonds SPEs are consolidated by the Group, the housing loans are included in loans and advances and the covered bonds issued are included within Bonds, notes and subordinated debt on the Group and Company's balance sheet. The covered bond holders have dual recourse to the issuer or the cover pool assets.

Securitisation

Through its loan securitisation programs, the Group packages and sells loans and advances (principally housing loans) as securities to investors through a series of securitisation vehicles. This includes loans that are held for potential repurchase with central banks. The Group is entitled to any residual income of the vehicles after all payments to investors and costs of the program have been met. The Group is considered to hold the majority of the residual risks and benefits of the vehicles. The Company and the Group continue to be exposed primarily to liquidity risk, interest rate risk and credit risk of the loans. The securitisation trusts are consolidated by the Group and the loans are retained on the Group and the Company's balance sheet. The note holders have recourse only to the loan pool of assets.

Notes to the financial statements

Other information

36 Earnings per share

	Group			
	2016			2015
	Basic	Diluted	Basic	Diluted
Earnings (\$m)				
Net profit attributable to owners of NAB	352	352	6,338	6,338
Distributions on other equity instruments	(124)	(124)	(175)	(175)
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	-	75	-	30
Interest expense on convertible preference shares	-	130	-	135
Adjusted earnings	228	433	6,163	6,328
Net (loss) attributable to owners of NAB from discontinued operations ⁽¹⁾	(6,068)	(6,068)	(462)	(462)
Adjusted earnings from continuing operations ⁽²⁾	6,296	6,501	6,625	6,790
Weighted average ordinary shares (No. '000)				
Weighted average ordinary shares (net of treasury shares)	2,596,957	2,596,957	2,438,782	2,438,782
Potential dilutive weighted average ordinary shares				
Performance options and performance rights	-	4,735	-	3,705
Partly paid ordinary shares	-	32	-	45
Employee share plans	-	8,587	-	4,458
Convertible notes	-	63,689	-	23,617
Convertible preference shares	-	119,686	-	108,041
Total weighted average ordinary shares	2,596,957	2,793,686	2,438,782	2,578,648
Earnings per share (cents) attributable to owners of NAB	8.8	15.5	252.7	245.4
Earnings per share from continuing operations (cents)	242.4	232.7	271.7	263.3
Earnings per share from discontinued operations (cents)	(233.7)	(217.2)	(18.9)	(17.9)

⁽¹⁾ Refer to Note 41 - Discontinued operations for further details.

⁽²⁾ Information is presented on a continuing operations basis including prior period restatements.

There has been no material conversion to, calls of, or subscriptions for ordinary shares, or issue of potential ordinary shares since 30 September 2016, and before the completion of this financial report.

37 Related party disclosures

During the year, there have been dealings between NAB and its controlled entities and other related parties. NAB provides a range of services to related parties including the provision of banking facilities and standby financing arrangements. Other dealings include granting loans and accepting deposits, and the provision of finance. These transactions are normally entered into on terms equivalent to those that prevail on an arm's length basis in the ordinary course of business.

Other transactions with controlled entities may involve leases of properties, plant and equipment, provision of data processing services or access to intellectual or other intangible property rights. Charges for these transactions are normally on an arm's length basis and are otherwise on the basis of equitable rates agreed between the parties. NAB also provides various administrative services to the Group, which may include accounting, secretarial and legal. Fees may be charged for these services.

NAB currently issues employee share compensation to Group employees on behalf of Group subsidiaries. The equity-based payments expense relating to this compensation is recharged from NAB to the employing subsidiaries in the Group. For further details, refer to Note 39 - Shares and performance rights.

The aggregate of material amounts receivable from or payable to controlled entities and NAB, at reporting date, is disclosed in the balance sheet of NAB. Refer to Note 30 - Interest in subsidiaries and other entities for details of NAB's investment in controlled entities. NAB has certain guarantees and undertakings with entities in the Group. For further details, refer to Note 31 - Contingent liabilities and credit commitments.

Loans made to subsidiaries are generally entered into on terms equivalent to those that prevail on an arm's length basis, except that there are often no fixed repayment terms for the settlement of loans between parties. Outstanding balances are unsecured and are repayable in cash.

The aggregate amounts receivable/(payable) from subsidiaries for the last two years to 30 September were:

	Company	
	2016	2015
	\$m	\$m
Balance at beginning of year	3,538	(6,807)
Net cash flows in amounts due from / (to) controlled entities	(2,841)	8,583
Net foreign currency translation movements and other amounts receivables	1,318	1,762
Balance at end of year	2,015	3,538

Notes to the financial statements

Other information (continued)

Material transactions with subsidiaries for the last two years to 30 September included:

	Company	
	2016	2015
	\$m	\$m
Net interest (expense)	(748)	(414)
Net operating lease (expense)	(67)	(78)
Net management fees (expense)	41	(20)
Dividend revenue	2,199	1,692

Superannuation plans

The following payments were made to superannuation plans sponsored by the Group:

Payment to:	Group		Company	
	2016	2015	2016	2015
	\$m	\$m	\$m	\$m
National Australia Bank Group Superannuation Fund A	240	214	240	214
Yorkshire and Clydesdale Bank Pension Scheme ⁽¹⁾	-	100	-	-
National Australia Group Defined Contribution Pension Scheme (UK) ⁽¹⁾	-	32	-	-
National Wealth Management Superannuation Plan	2	2	-	-
Bank of New Zealand Officers Provident Association (Division 2)	11	11	-	-
National Australia Bank Pension and Workplace Savings Scheme	10	12	10	12

⁽¹⁾ On 8 February 2016, the Group lost control of CYBG - Refer to Note 41 - Discontinued operations for further details.

Transactions between the Group and superannuation plans sponsored by the Group during the last two years were made on commercial terms and conditions.

Key Management Personnel (KMP)

KMP are those employees of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group. More detailed remuneration disclosures for KMP's are provided in the *Remuneration report* section of the Report of the Directors.

Remuneration of KMP

Total remuneration of KMP of NAB and the Group for the last two years to 30 September were:

	Short-term benefits			Post-employment benefits	Other long term benefits	Equity-based benefits		Termination benefits	Total
	Cash salary fixed	Cash STI at risk	Non-monetary fixed⁽¹⁾	Super-annuation fixed		Shares at risk	Rights at risk		
NAB and the Group	\$	\$	\$	\$	\$	\$	\$	\$	\$
2016	15,228,940	7,627,064	590,404	532,520	183,397	1,778,216	9,831,928	3,062,383	38,834,852
2015	15,186,210	6,087,180	119,095	485,587	155,351	1,349,902	7,886,760	-	31,270,085

⁽¹⁾ The 2015 comparative amount has been adjusted to reflect prior year benefits.

Performance rights and shareholdings of KMP are set out in the *Remuneration report*.

Loans to KMP and their related parties

During the reporting period loans made to KMP's and other related parties of NAB and the Group were \$15 million (2015: \$6 million). Such loans are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans may be secured or unsecured depending on the nature of the lending product advanced. As at 30 September 2016, the total loan balances outstanding were \$67 million (2015: \$47 million).

No amounts were written off in respect of any loans made to directors or other KMP of NAB and the Group during the current or prior reporting period.

Further details regarding loans advanced to KMPs of NAB and the Group are included in the *Remuneration report*.

Notes to the financial statements

Other information (continued)

38 Remuneration of external auditor

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Audit Services				
Amounts paid or due and payable to Ernst & Young Australia	11,557	11,413	7,332	7,491
Amounts paid or due and payable to Ernst & Young Overseas	4,787	12,441	2,270	1,869
Total remuneration for audit services	16,344	23,854	9,602	9,360
Non-audit Services				
Audit related Services				
Amounts paid or due and payable to Ernst & Young Australia	5,783	7,766	3,593	5,320
Amounts paid or due and payable to Ernst & Young Overseas	1,065	2,235	156	470
Total remuneration for audit related services	6,848	10,001	3,749	5,790
All other Services				
Amounts paid or due and payable to Ernst & Young Australia	1,335	1,573	722	1,377
Amounts paid or due and payable to Ernst & Young Overseas	466	1,037	20	-
Total remuneration for all other services	1,801	2,610	742	1,377
Total remuneration for non-audit services	8,649	12,611	4,491	7,167
Total remuneration for audit and non-audit services ^{(1) (2)}	24,993	36,465	14,093	16,527

⁽¹⁾ Amounts exclude goods and services tax, value added tax or equivalent taxes.

⁽²⁾ Including any network firm.

Audit services consist of the audit or review of the consolidated financial statements of the Group and Company, including controlled entities that are required to prepare financial statements.

Any services that are not audit services performed during the reporting period are non-audit services. These include audit related services and all other services.

Audit related services consist of assurance and related services that are traditionally performed by the external auditor, including (i) provision of comfort letters to underwriters in connections with securities offerings; (ii) regulatory services required by statute, regulation or regulatory compliance obligations; and (iii) non-regulatory services including non-statutory audits, accounting consultations and audits in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation and consultation concerning financial accounting and reporting standards.

All other services are those that are not audit or audit related services.

For a description of the Audit Committee's pre-approval policies and procedures, refer to the NAB 2016 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance. Further details of the non-audit services provided by Ernst & Young to the Group during 2016 and the fees paid or due and payable for those services are set out in the Report of the Directors.

39 Shares and performance rights

The Group's employee equity plans provide NAB shares and performance rights to employees of the Group. Each plan allows employees to be invited to participate in the offers under the relevant plan. Employee equity plans may be specific to employees in a particular region (e.g. New Zealand (NZ) staff share allocation plan, United Kingdom (UK) share incentive plan).

The Board determines the maximum number of shares or performance rights offered under each plan having regard to the rules of the relevant plan and, where required, the formula used in calculating the fair value per instrument. Under ASX Listing Rules, shares and performance rights may not be issued to NAB directors under an employee equity plan without specific shareholder approval.

Equity-based programs for employees

Equity-based programs offered to employees form part of the Group's remuneration policy which is designed to:

- Attract, recognise, motivate and retain employees.
- Drive employee performance.
- Align the interests of employees and shareholders through ownership of NAB securities.
- Comply with jurisdictional remuneration regulations and Group diversity, inclusion and pay equity commitments.

Under the terms of most offers, there is a period during which shares are held on trust and cannot be dealt with, or performance rights cannot be exercised, by the employee to whom they are allocated. There may be forfeiture or lapse conditions particular to shares or performance rights allocated to an employee (as described below) if the employee leaves during those periods. Shares allocated to employees are eligible for any cash dividends paid from the time they are allocated to the trustee on an employee's behalf.

The value of the awards provided is measured by reference to the grant date fair value of the shares and performance rights provided to employees. The expense for each tranche of shares or performance rights granted is recognised in the income statement on a straight-line basis, adjusted for forfeitures, over the period that the awards provided are received (the vesting period), with a corresponding increase in the equity-based compensation reserve.

Notes to the financial statements

Other information (continued)

The grant date fair value of each share is determined by the market value of NAB shares, and is generally a five day weighted average share price. Employee share plans and performance rights are linked to internal performance, market performance and/or service conditions.

The fair value of the shares and performance rights with market performance hurdles is determined using a simulated version of the Black-Scholes model. The key assumptions and inputs used in the valuation model are the NAB share price at the time of the grant, exercise price of the performance rights (which is nil), the expected volatility of NAB's share price, the risk-free interest rate and the expected dividend yield on NAB shares for the life of the performance rights. When estimating expected volatility, historic daily share prices are analysed to arrive at annual and cumulative historic volatility estimates (which may be adjusted for any abnormal periods or non-recurring significant events). Trends in the data are analysed to estimate volatility movements in the future for use in the numeric pricing model. The simulation takes into account both the probability of achieving market performance conditions and the potential for early exercise of vested performance rights.

While market performance conditions are incorporated into the grant date fair values, non-market conditions are not taken into account when determining the fair value and expected time to vesting of shares and performance rights. Instead, non-market conditions are taken into account by adjusting the number of shares and performance rights included in the measurement of the expense so that the amount recognised in the income statement reflects the number of shares or performance rights that actually vest.

The key equity-based programs offered to employees are:

Short-term incentives (STI) for certain employees may be deferred into shares or performance rights. Employees become eligible to receive those shares or performance rights based on their individual performance, business performance or both, and service and other conditions.

The STI deferral model for employees based in Australia, Asia, NZ, the UK and the United States (US) allows for a proportion of an employee's STI reward to be deferred. The deferred amount is commensurate with the level of risk and responsibility within a role and the length of deferral, ranging from 6 to 42 months, aligns with both the level of risk and impact of the role on business performance and results. A threshold is in place whereby deferral only applies to STI deferred amounts of \$1,000 or more.

Generally, STI shares (or performance rights which are granted to senior executives or for jurisdictional reasons) are forfeited (or lapsed) during the deferral period if the employee resigns or breaches the NAB Code of Conduct during the following financial year(s) or, subject to certain exclusions, if the employee is terminated from the Group. In determining the release of an employee's STI shares from restrictions during the deferral period, the Board may in its absolute discretion, subject to compliance with the law, forfeit some or all of the STI Deferral shares. For further details on STI awards granted to senior executives of NAB, refer to the *Remuneration report*.

Commencement shares (or performance rights granted for jurisdictional reasons) enable the buy-out of equity from previous employment, but are only provided with the recommendation of the Remuneration Committee or delegate and the approval of the Board or delegate. The amount, timing and performance hurdles relevant to any such awards are based on satisfactory evidence. The shares may also be subject to restrictions and certain forfeiture conditions, including forfeiture (or lapsing) on resignation.

Recognition / Retention shares (or performance rights granted for jurisdictional reasons) may be offered to key individuals in roles where retention is critical over a medium term time frame (generally two to three years). The shares or performance rights may also be subject to restrictions and certain forfeiture conditions, including forfeiture (or lapsing) on resignation.

General employee shares up to a target value of \$1,000 are offered to eligible employees. These shares are held on trust, are subject to restrictions on dealing for three years and, in Australia and Asia, are not subject to forfeiture. In NZ, the UK and the US, the shares are effectively forfeited if the employee resigns or is dismissed from the Group before the end of the three year restriction period.

Salary sacrifice shares were allocated on a monthly basis to UK employees when they nominate to contribute a portion of their gross salary to receive NAB shares. Salary sacrifice shares ceased to be offered in December 2015.

Long-term incentives (LTI) taking the form of performance rights, help to align management decisions with the long-term prosperity of the Group through the use of challenging performance hurdles. The Executive LTI program is awarded to senior executives across the Group. An LTI target is set with reference to external and internal relativities for each executive who must also meet minimum performance and conduct thresholds. Performance hurdles (both internal and external) are measured at the end of a four to five year performance period. During the performance period an executive's performance rights will lapse for cessation of employment (if the Board so determines) or if conduct requirements or performance hurdles are not met. The Board also has absolute discretion to determine vesting or lapsing outcomes for the performance rights.

Total Shareholder Return (TSR) compared against peer companies and Group Cash ROE growth compared against peer companies are the performance measures used depending on the year the LTI was awarded.

Vesting of an LTI award generally occurs to the extent that the relevant performance hurdle is satisfied (as determined by the Board Remuneration Committee). For historical awards, the performance rights generally have an expiry date between five and six years from the effective date, if they remain unexercised. For LTI awards from 2015, if the applicable conditions are met, the performance rights will vest and each performance right will be automatically exercised in return for one NAB ordinary share.

Each performance right is exchanged for one NAB fully paid ordinary share upon exercise, subject to standard adjustments for capital actions. No exercise price is payable by the holder on exercise of performance rights.

Notes to the financial statements

Other information (continued)

Details of shares and performance rights are set out in the following tables:

Employee share plans

Employee share plans	2016		2015	
	Fully paid ordinary shares granted during the year No.	Weighted average grant date fair value \$	Fully paid ordinary shares granted during the year No.	Weighted average grant date fair value \$
Salary sacrifice shares	16,409	30.48	81,618	34.48
Short-term incentive shares	5,256,310	24.91	2,306,937	32.92
Commencement and recognition shares	1,148,780	25.94	433,190	33.25
General employee shares	1,260,480	24.84	1,164,870	32.40

The closing market price of NAB's shares at 30 September 2016 was \$27.87 (2015: \$29.98). The volume weighted average share price during the year ended 30 September 2016 was \$27.38 (2015: \$33.87).

Performance rights movements

	Performance rights ⁽¹⁾ No.
Equity instruments outstanding as at 30 September 2014	4,418,460
Granted	1,740,539
Forfeited	(1,030,999)
Exercised	(743,764)
Expired	(5,276)
Equity instruments outstanding as at 30 September 2015	4,378,960
Granted	1,558,552
Forfeited	(483,269)
Exercised	(387,127)
Expired	(143,635)
Equity instruments outstanding as at 30 September 2016	4,923,481
Equity instruments exercisable as at 30 September 2016	3,348
Equity instruments exercisable as at 30 September 2015	28,276

⁽¹⁾ No exercise price is payable for performance rights.

Performance rights outstanding

Terms and conditions	2016		2015	
	Outstanding at 30 Sep No.	Weighted average remaining life months	Outstanding at 30 Sep No.	Weighted average remaining life months
External hurdle ⁽¹⁾	4,442,277	34	3,780,094	44
Internal hurdle ⁽²⁾	89,600	16	61,258	27
Individual hurdle ⁽³⁾	391,604	10	537,608	12

⁽¹⁾ Performance hurdles based on the Company's relative TSR compared with peer companies.

⁽²⁾ Performance hurdles based on achievement of internal financial measures such as cash earnings and ROE compared to business plan.

⁽³⁾ Vesting is determined by individual performance or time-based hurdles.

Information on fair value calculation

The table below shows the significant assumptions used as inputs into the grant date fair value calculation of performance rights granted during the last two years. In the following table, values have been presented as weighted averages, but the specific values for each grant are used for the fair value calculation. The following table shows a 'no hurdle' value where the grant includes performance rights which have non-market based performance hurdles attached.

	2016	2015
Weighted average values		
Contractual life (years)	3.7	4.7
Risk-free interest rate (per annum)	2.23%	2.42%
Expected volatility of share price	18%	17%
Closing share price on grant date	\$28.41	\$33.46
Dividend yield (per annum)	5.90%	5.80%
Fair value of performance rights	\$9.63	\$13.97
'No hurdle' value of performance rights	\$24.59	\$29.97
Expected time to vesting (years)	3.42	3.62

Notes to the financial statements

Other information (continued)

40 Capital adequacy

As an authorised deposit-taking institution (ADI), NAB is subject to regulation by the Australian Prudential Regulation Authority (APRA) under the authority of the Banking Act 1959 (Cth). APRA has set minimum regulatory capital requirements for banks that are consistent with the Basel capital adequacy framework.

The Group's capital structure comprises various forms of capital. Common Equity Tier 1 (CET1) capital comprises paid-up ordinary share capital, retained earnings plus certain other items recognised as capital. The ratio of such capital to risk-weighted assets is called the CET1 ratio. Additional Tier 1 capital comprises certain securities with required loss absorbing characteristics. Together these components of capital make up Tier 1 capital and the ratio of such capital to risk-weighted assets is called the Tier 1 capital ratio.

Tier 2 capital mainly comprises of subordinated debt instruments, and contributes to the overall capital framework.

CET1 capital contains the highest quality and most loss absorbent component of capital, followed by Additional Tier 1 capital and then followed by Tier 2 capital. The sum of Tier 1 capital and Tier 2 capital is called Total Capital. The ratio of Total Capital to risk-weighted assets is called the Total Capital ratio. The minimum CET1 ratio, Tier 1 capital ratio and Total Capital ratio under APRA's Basel capital adequacy Prudential Standards are 4.5%, 6.0% and 8.0% respectively.

In addition to the minimum total capital base ratio described above, APRA sets a Prudential Capital Ratio at a level proportional to an ADI's overall risk profile. A breach of the required ratios under the prudential standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital or to cease business.

From 1 January 2016, APRA implemented a capital conservation buffer of 2.5% of an ADI's total risk-weighted assets. In addition, for ADI's considered systemically important such as the Company, a further Domestic Systemically Important Bank (D-SIB) requirement of 1% has been added to the required capital conservation buffer.

Under APRA's Prudential Standards, life insurance and wealth management entities activities are deconsolidated for the purposes of calculating capital adequacy and excluded from the risk based capital adequacy framework. The investment in these controlled entities is deducted 100% from CET1 capital. Additionally, any profits from these activities included in the Group's results are excluded from the determination of CET1 capital to the extent they have not been remitted to the Company.

Capital ratios are monitored against internal capital targets that are set over and above minimum capital requirements set by the Board. The Group remains well capitalised with a CET1 ratio of 9.77% as at September 2016. The Group's published CET1 target remains set to operate between 8.75% and 9.25% and is regularly reviewed in the context of the external economic and regulatory outlook with the objective of maintaining balance sheet strength.

41 Discontinued operations

During the financial year to 30 September 2016, the Group finalised two major transactions, the sale of 80% of NAB Wealth's life insurance business and the demerger and Initial Public Offering (IPO) of CYBG Group, resulting in two separate discontinued operations, the details of which are outlined below.

On 30 September 2016, the Group deconsolidated MLC Limited in line with the sale of 80% of NAB Wealth's life insurance business to Nippon Life⁽¹⁾. The transaction met the criteria for being classified as a discontinued operation. The life insurance business was part of the NAB Wealth operating segment and was not a separate operating segment (Refer to *Note 2 - Segment information*).

On 8 February 2016, the Group completed the demerger and IPO of CYBG Group, which was a part of UK Banking operations of the Group. The transaction met the criteria for being classified as a discontinued operation. UK Banking was a separate operating and reportable segment of the Group in prior reporting periods (Refer to *Note 2 - Segment information*). This operating segment was not previously classified as held for sale or as a discontinued operation.

The comparative income statements and statements of comprehensive income of the Group have been restated to show discontinued operations separately from continuing operations.

In the previous financial year, the Group divested its holding in Great Western Bancorp, Inc. (GWB), a US based subsidiary of the Group. The transaction qualified as a discontinued operation, the impact of which is reflected in the comparative information as discontinued operations.

(a) Loss of control over subsidiaries

Life insurance business discontinued operation

The consideration for the sale of 80% of NAB Wealth's life insurance business to Nippon Life was \$2,206 million. This amount is recognised as a receivable on the balance sheet at 30 September 2016, with payment received on the completion date of 3 October 2016. A dividend of \$186 million was also received during the financial year taking the total consideration for the transaction to \$2,392 million.

The total accounting loss recognised in the Group's income statement in respect of the sale, including one-off transaction costs was \$1,337 million. As part of the transaction the goodwill in the Wealth business was reduced by \$1,711 million. The amount of cash and cash equivalents in the consolidated NAB Wealth life insurance business as of the date when control was lost was \$1,217 million. In addition, NAB has given certain covenants, warranties and indemnities in favour of Nippon Life in connection with the transaction. A breach of these covenants or warranties or the triggering of an indemnity may result in NAB being liable to Nippon Life.

⁽¹⁾ Loss of control occurred prior to legal completion, which took place on 3 October 2016.

Notes to the financial statements

Other information (continued)

CYBG discontinued operation

The separation of CYBG Group was achieved by a demerger of 75% of CYBG shares to NAB shareholders, with the remaining 25% divested through an IPO to institutional investors (with both transactions referred to as the CYBG demerger). The total accounting loss recognised in the Group's income statement in respect of the CYBG demerger was \$4,218 million, which included a release of the Foreign Currency Translation Reserve (FCTR) and other reserves relating to CYBG Group. Also included in this amount are the one-off costs comprising transaction, execution and separation costs directly attributable to executing the CYBG demerger.

The total FCTR (inclusive of net investment hedge adjustments) which was released to the Group's income statement was a \$1,368 million loss.

The total value of the CYBG shares distributed to NAB shareholders was \$2,645 million. Eligible NAB shareholders were entitled to receive one CYBG share for every four NAB shares held as well as retaining their existing shares in the Group. The distribution occurred by way of a scheme of arrangement and a reduction of capital in the Group (Refer to *Note 25 - Contributed equity*).

Total net cash consideration proceeds received from the IPO was \$783 million⁽¹⁾. The amount of cash and cash equivalents in the consolidated CYBG Group as at the Demerger Date was \$11,188 million.

GWB Discontinued Operation

The disposal of GWB in the previous reporting period occurred in stages, with some of the transactions treated as equity transactions. The total accounting loss recognised in the Group's prior period income statement in respect of the final public offering in which the Group lost control was \$83 million.

(b) Retained interest

Life insurance business discontinued operation

NAB has retained a 20% interest in MLC Limited following the sale of 80% of that company to Nippon Life. The retained interest gives NAB significant influence over the business and is accounted for using the equity method in accordance with AASB 128 "Investments in Associates and Joint Ventures". The investment is disclosed within other assets on the NAB Group balance sheet at 30 September 2016 with an initial carrying value of \$550 million. The full current and prior period results of the life insurance business are presented within the life insurance business discontinued operation. From 2017, the Group will recognise its share of profit associated with the retained investment in the life insurance business within continuing operations.

Further to retaining a direct investment in the life insurance business, the Group has entered into a long term partnership with Nippon Life which includes a 20 year distribution agreement to provide life insurance products through NAB's owned and aligned distribution networks. The distribution agreement will be a source of income for the Group in addition to the share of profits associated with the retained investment.

The sale of 80% of NAB Wealth's life insurance business required this business to be structurally separated from the investments business (including superannuation platforms, advice and asset management), which the Group is retaining. As part of this process, NAB has simplified the structure of the investments business by merging five of its super funds into one fund, the MLC Super Fund. This was done primarily via a Successor Fund Merger with the transaction taking place on 1 July 2016. This merger has resulted in the relevant investment assets being transferred from the Group balance sheet to the MLC Super Fund, which is not a controlled entity of the Group.

CYBG discontinued operation

Immediately following the CYBG demerger, NAB held two types of instruments issued by CYBG Group, Additional Tier 1 capital notes (AT1 Notes) with an issue size of £450 million, and Tier 2 capital notes (Tier 2 Notes) with an issue size of £475 million. On 22 September 2016 NAB sold both these instruments to unrelated third party investors. The gains and losses associated with these instruments, including their sale, are reflected in the CYBG discontinued operation.

(c) Conduct Indemnity Deed

As part of the CYBG demerger, NAB and CYBG entered into the Conduct Indemnity Deed under which NAB agreed, subject to certain limitations, to provide CYBG with a Capped Indemnity in respect of certain historic conduct liabilities (Refer to *Note 31 - Contingent liabilities and credit commitments* for further information on the Capped Indemnity). During the 2016 year, CYBG raised provisions of £479 million in relation to conduct issues covered under the terms of the Capped Indemnity and made claims in relation to those amounts. NAB has recognised conduct provisions of £433 million in respect of these claims. This represents NAB's 90.3% portion of the relevant costs with CYBG recording the other 9.7% as agreed under the loss sharing arrangement. All conduct provisions recognised by NAB under the Conduct Indemnity Deed are presented within the CYBG discontinued operation and Other liabilities.

⁽¹⁾ This amount is net of underwriting commissions and stamp duty fees.

Notes to the financial statements

Other information (continued)

Analysis of profit for the year from discontinued operations

The results set out below represent the discontinued operations of NAB Wealth's life insurance business and UK Banking operations as related to the CYBG demerger. The information contained in the table is prepared under Australian Accounting Standards. The CYBG discontinued operation also includes NAB's provisions for claims under the Conduct Indemnity Deed in the year to 30 September 2016 and gains and losses relating to the AT1 Notes and Tier 2 Notes.

	Year to	
	Sep 16	Sep 15
	\$m	\$m
Life insurance business discontinued operation		
Net operating income	1,101	839
Total expenses	(747)	(537)
Profit before income tax	354	302
Income tax expense	(140)	(118)
Net profit from life insurance business discontinued operation before loss on sale	214	184
Loss on sale of life insurance business before taxation	(1,507)	-
Income tax benefit associated with loss on sale	170	-
Loss on sale of life insurance business after taxation	(1,337)	-
Net (loss) / profit from life insurance business discontinued operation	(1,123)	184
CYBG discontinued operation		
Net operating income	667	1,944
Total expenses including doubtful debts	(1,339)	(2,681)
Loss before income tax	(672)	(737)
Income tax (expense) / benefit	(55)	110
Net loss from CYBG discontinued operation before loss on demerger	(727)	(627)
Loss on demerger of CYBG before taxation	(4,285)	-
Income tax benefit associated with demerger	67	-
Loss on demerger of CYBG after taxation	(4,218)	-
Net loss from CYBG discontinued operation	(4,945)	(627)
Total discontinued operations		
Net (loss) / profit from life insurance business discontinued operation	(1,123)	184
Net loss from CYBG discontinued operation	(4,945)	(627)
Net profit from GWB discontinued operation (prior period transaction)	-	29
Net loss from discontinued operations	(6,068)	(414)
Attributable to owners of NAB	(6,068)	(462)
Attributable to non-controlling interests	-	48

Cash flows from / (used in) discontinued operations

The results of cash flows from / (used in) the life insurance business discontinued operation and the CYBG discontinued operation for the period up to the loss of control date included in the Group's cash flow statement are set out below, including full year comparative information.

	Year to	
	Sep 16	Sep 15
	\$m	\$m
Life insurance business discontinued operation		
Net cash from / (used in) operating activities	22	844
Net cash from / (used in) investing activities	(698)	223
Net cash from / (used in) financing activities	(604)	(765)
Net cash inflows / (outflows) from life insurance business discontinued operation	(1,280)	302
CYBG discontinued operation		
Net cash from / (used in) operating activities	(504)	1,843
Net cash from / (used in) investing activities	256	(276)
Net cash from / (used in) financing activities	(38)	385
Net cash inflows / (outflows) from CYBG discontinued operation	(286)	1,952

Notes to the financial statements

Other information (continued)

Effect of disposal on the financial position of the Group

The assets and liabilities of the life insurance business discontinued operation and the CYBG discontinued operation removed from the Group's balance sheet at the date that control was lost are set out below. In accordance with AASB 5 "Non-current Assets Held for Sale and Discontinued operations", comparative information of the Group's balance sheet for discontinued operations has not been restated. The information contained in the table is prepared under Australian Accounting Standards.

	2016
	\$m
Life insurance business discontinued operation	
Assets	
Cash and liquid assets	1,217
Investments relating to life insurance business	4,304
Deferred tax assets	17
Other assets	659
Total assets	6,197
Liabilities	
Life policy liabilities	3,746
Deferred tax liabilities	93
Provisions	37
Other liabilities	347
Total liabilities	4,223
Net assets	1,974
CYBG discontinued operation	
Assets	
Cash and liquid assets	2,533
Due from other banks	10,019
Trading derivatives	399
Debt instruments at fair value through other comprehensive income	2,836
Other financial assets at fair value	1,964
Hedging derivatives	331
Loans and advances	56,304
Property, plant and equipment	204
Goodwill and other intangible assets	556
Deferred tax assets	706
Other assets	2,343
Total assets	78,195
Liabilities	
Due to other banks	1,275
Trading derivatives	609
Hedging derivatives	447
Deposits and other borrowings	53,084
Current tax liabilities	15
Provisions	1,632
Due to controlled entities	1,787
Bonds, notes and subordinated debt	7,567
Other liabilities	4,797
Total liabilities	71,213
Net assets	6,982

42 Events subsequent to reporting date

On 3 October 2016, the Group completed and received payment of the consideration for the sale of 80% of NAB Wealth's life insurance business to Nippon Life. Refer to *Note 41 - Discontinued operations* for further information.

There are no other matters, items, transactions or events of a material or unusual nature that have arisen in the interval between the end of the reporting period (30 September 2016) 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.

Directors' declaration

The directors of National Australia Bank Limited declare that:

1. (a) in the opinion of the directors, the financial statements and the notes thereto as set out on pages 60 to 145 and the additional disclosures included in the audited pages of the Remuneration report, comply with Australian Accounting Standards (including the Australian Accounting Interpretations), International Financial Reporting Standards as stated in *Note 1(b) - Statement of compliance* to the financial statements, and the *Corporations Act 2001* (Cth);
(b) in the opinion of the directors, the financial statements and notes thereto give a true and fair view of the financial position of NAB and the Group as at 30 September 2016, and of the performance of NAB and the Group for the year ended 30 September 2016;
(c) in the opinion of the directors, at the date of this declaration, there are reasonable grounds to believe that NAB will be able to pay its debts as and when they become due and payable; and
(d) the directors have been given the declarations required by section 295A of the *Corporations Act 2001* (Cth); and
2. there are reasonable grounds to believe that NAB and certain controlled entities will, as a group, be able to meet any obligations or liabilities to which they are or may become subject by virtue of the deed of cross guarantee between NAB and those controlled entities pursuant to Australian Securities and Investments Commission Class Order 98/1418 dated 13 August 1998 (refer to *Note 30 - Interests in subsidiaries and other entities* and *Note 31 - Contingent liabilities and credit commitments* to the financial statements for further details).

Dated this 14th day of November 2016 and signed in accordance with a resolution of the directors.



Dr Kenneth R Henry
Chairman



Mr Andrew G Thorburn
Group Chief Executive Officer

Report on the Audit of the Financial Report of National Australia Bank Limited

Opinion

We have audited the Financial Report of National Australia Bank Limited (the Company), and the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year (the Group), which comprises

- ▶ the balance sheets as at 30 September 2016;
- ▶ the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended;
- ▶ notes to the financial statements, including a summary of significant accounting policies, and
- ▶ the Directors' declaration.

In our opinion the accompanying Financial Report of the Group is in accordance with the *Corporations Act 2001*, including:

- ▶ giving a true and fair view of the Company's and the Group's financial position as at 30 September 2016 and of its financial performance for the year then ended; and
- ▶ complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for our Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period. These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Report.

Key audit matter

How our audit addressed the key audit matter

Provisions for doubtful debts

As described in Notes 1 *Principal accounting policies (g)(vi) Impairment of financial assets*, 15 *Provision for doubtful debts* and 33 *Financial risk management*, the provisions for doubtful debts are determined under application of AASB 9 Financial Instruments.

This is a key audit matter as significant judgement is involved to determine the provisions for doubtful debts.

Key areas of judgement included:

- ▶ the interpretation of the requirements to determine impairment under application of AASB 9, which is reflected in the Group's expected credit loss model;
- ▶ the identification of exposures with a significant deterioration in credit quality;
- ▶ assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices) as disclosed in Note 33 *Financial risk management - Credit quality of financial assets*; and
- ▶ the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.

To address the risk of material misstatement and obtain sufficient audit evidence, we performed the following procedures over the provisions for doubtful debts:

We assessed the modelling techniques and methodology against the requirements of AASB 9 Financial Instruments.

We assessed and tested the design and operating effectiveness of the controls over the:

- ▶ data used to determine the provisions for doubtful debts, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data in data warehouses and interfaces to the expected credit loss model; and
- ▶ expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.

We assessed and tested the material modelling assumptions as well as overlays with a focus on the:

- ▶ key modelling assumptions adopted by the Group;
- ▶ basis for and data used to determine overlays; and
- ▶ sensitivity of the collective provisions to changes in modelling assumptions.

We examined a sample of exposures and performed procedures to evaluate the:

- ▶ timely identification of exposures with a significant deterioration in credit quality; and
- ▶ expected loss calculation for exposures assessed on an individual basis.

In addition, we assessed the adequacy of the disclosures in the Financial Report.

We involved Actuarial and IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).

Key audit matter

How our audit addressed the key audit matter

Accounting for divestments

As detailed in Note 41 *Discontinued operations*, the Group completed the following divestments during the financial year:

- ▶ merger and Initial Public Offering of CYBG PLC and its controlled entities; and
- ▶ sale of 80% of the Group's life insurance business.

This is a key audit matter as these divestments had a significant effect on the Financial Report and required the application of complex judgements.

Key areas of judgement included:

- ▶ the transaction boundary, which defines the scope of a transaction. This includes the identification of the entities affected by the divestments, the dates the Group loses control over its investments as well as the appropriate attribution of results to continuing and discontinued operations; and
- ▶ the appropriate allocation of goodwill associated with the NAB Wealth Cash Generating Unit that was derecognised upon divestment of the Group's life insurance business (\$1,711 million).

As part of our audit response we performed the following procedures on the divestments:

- ▶ assessed the accounting treatment of each divestment against the requirements of AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations* with a focus on the transaction boundary. This included the dates the Group lost control over its investments and the attribution of results to discontinued or continuing operations;
- ▶ checked the mathematical accuracy of the net loss attributable to discontinued operations on the basis of the underlying agreements and other evidence such as invoices and supporting calculations; and
- ▶ assessed the allocation of NAB Wealth goodwill to the Group's life insurance business for compliance with the accounting requirements.

In addition, we assessed the adequacy of the disclosures in the Financial Report.

Conduct risk and provisions

As detailed in Note 31 *Contingent liabilities and credit commitments*, the Group is exposed to conduct related matters, legal cases and regulatory investigations in various jurisdictions. In this context, the Group has raised a number of provisions for conduct costs.

This is a key audit matter as significant judgement is involved to assess conduct related matters and measure provisions for conduct costs.

Key areas of judgement included:

- ▶ the identification of emerging conduct related matters as there is an inherent risk that such matters are not identified and recognised on a timely basis;
- ▶ the decision to recognise a provision for conduct costs; and
- ▶ consideration of additional claims made by CYBG PLC under the Conduct Indemnity Deed.

As part of our audit response we performed the following procedures over the conduct related matters:

- ▶ obtained an understanding of the Group's process for identifying emerging conduct related matters, including reading the minutes of the Group's key governance meetings as well as correspondence with relevant regulators;
- ▶ assessed conduct related matters for which no provision has been recognised;
- ▶ assessed and tested key modelling assumptions used to determine provisions for conduct costs such as expected operational costs and regulatory fines, future claim volumes, claim uphold rates and customer redress payments; and
- ▶ for provisions for conduct costs covered under the Conduct Indemnity Deed with CYBG PLC, we assessed the provisions against the requirements of the Conduct Indemnity Deed.

In addition, we assessed the adequacy of the disclosures in the Financial Report.

Information Technology (IT) systems and controls over financial reporting

A significant part of the Group's financial reporting process is heavily reliant on IT systems with automated processes and controls over the capture, storage and extraction of information. A fundamental component of these processes and controls is ensuring appropriate user access and change management protocols exist, and are being adhered to.

These protocols are important because they ensure that access and changes to IT systems and related data are made and authorised in an appropriate manner.

As our audit sought to place a high level of reliance on IT systems and application controls related to financial reporting, a high proportion of the overall audit effort was in this area.

We focused our audit on those IT systems and controls that are significant for the Group's financial reporting process.

As audit procedures over IT systems and controls require specific expertise, we involved IT specialists in our audit.

We assessed and tested the design and operating effectiveness of the Group's IT controls, including those over user access and change management as well as data reliability.

In a limited number of cases we adjusted our planned audit approach as follows:

- ▶ we extended our testing to identify whether there had been unauthorised or inappropriate access or changes made to critical IT systems and related data;
- ▶ where automated procedures were supported by systems with identified deficiencies, we extended our procedures to identify and test alternative controls; and
- ▶ where required, we performed a greater level of testing to validate the integrity and reliability of associated data and reporting.

Other information

The Directors are responsible for the other information. The other information comprises the information in the Company's Annual Financial Report for the year ended 30 September 2016, but does not include the Financial Report and the auditor's reports thereon.

Our opinion on the Financial Report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the Financial Report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the Financial Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- ▶ Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Financial Report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the Financial Report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report


Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 30 to 58 of the Report of the Directors for the year ended 30 September 2016.

In our opinion, the Remuneration Report of the Company for the year ended 30 September 2016 complies with section 300A of the *Corporations Act 2001*.

Responsibility

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Andrew Price
Partner
Melbourne

14 November 2016

Shareholder information

Twenty largest registered fully paid ordinary shareholders of the company as at 31 October 2016

	Number of shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	561,686,718	21.14
J P MORGAN NOMINEES AUSTRALIA LIMITED	338,106,136	12.73
CITICORP NOMINEES PTY LIMITED	137,574,120	5.18
NATIONAL NOMINEES LIMITED	122,917,153	4.63
BNP PARIBAS NOMS PTY LTD <DRP>	62,796,390	2.36
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	31,581,422	1.19
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	27,021,954	1.02
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	14,165,520	0.53
AMP GROUP	14,132,995	0.53
NATIONAL AUSTRALIA TRUSTEES	11,061,986	0.42
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	10,621,825	0.40
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	9,892,002	0.37
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	9,342,065	0.35
ARGO INVESTMENTS LIMITED	6,055,138	0.23
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	5,602,494	0.21
MILTON CORPORATION LIMITED	4,757,857	0.18
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	4,450,161	0.17
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	4,227,738	0.16
PERSHING AUSTRALIA NOMINEES PTY LTD <D2MX PTY LTD A/C>	3,373,250	0.13
BKI INVESTMENT COMPANY LIMITED	2,686,976	0.10
Total	1,382,053,900	52.03

Substantial shareholders

As at 31 October 2016, there were no persons with a substantial shareholding in the Company.

Distribution of fully paid ordinary shareholdings

Range (number)	Number of		Number of	
	shareholders	% of holders	shares	% of shares
1 – 1,000	336,167	57.77	129,594,041	4.88
1,001 – 5,000	196,825	33.82	435,253,413	16.38
5,001 – 10,000	30,863	5.30	214,283,903	8.06
10,001 – 100,000	17,629	3.03	360,290,795	13.56
100,001 and over	454	0.08	1,517,560,610	57.12
Total	581,938	100	2,656,982,762	100
Less than marketable parcel of \$500	15,504		119,557	

Voting rights

Each ordinary shareholder present at a general meeting (whether in person or by proxy or representative) is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held. Holders of partly paid shares voting on a poll are entitled to a number of votes based upon the proportion that the amount of capital call and paid up on the shares bears to the total issue price of the shares.

Shareholder information

Twenty largest registered National Income Securities (NIS) holders as at 31 October 2016

	Number of securities	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,186,104	5.93
J P MORGAN NOMINEES AUSTRALIA LIMITED	761,679	3.81
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	519,603	2.60
NATIONAL NOMINEES LIMITED	434,037	2.17
CITICORP NOMINEES PTY LIMITED	417,362	2.09
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD <PICREDIT>	254,546	1.27
PERPETUAL CORPORATE TRUST LTD <NICIT>	229,680	1.15
LAVA CORPORATION PTY LTD <LAVA UNIT A/C>	219,178	1.10
UBS NOMINEES PTY LTD	203,596	1.02
MUTUAL TRUST PTY LTD	192,524	0.96
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	192,443	0.96
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	187,746	0.94
BNP PARIBAS NOMS PTY LTD <DRP>	179,026	0.90
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	152,820	0.76
UBS NOMINEES PTY LTD <TP00014 10 A/C>	121,106	0.61
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	91,363	0.46
PERPETUAL CORPORATE TRUST LTD <NIT1>	77,000	0.39
PENINSULA HARBOUR PTY LTD <PENINSULA HARBOUR UNIT A/C>	69,125	0.35
AUST EXECUTOR TRUSTEES LTD <DDH PREFERRED INCOME FUND>	62,031	0.31
CUSTODIAL SERVICES LIMITED <BENEFICIARIES HOLDING A/C>	61,501	0.31
Total	5,612,470	28.09

Distribution of NIS holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	28,812	92.04	7,005,584	35.03
1,001 – 5,000	2,215	7.08	4,364,352	21.82
5,001 – 10,000	164	0.52	1,134,315	5.67
10,001 – 100,000	99	0.32	2,244,299	11.22
100,001 and over	15	0.05	5,251,450	26.26
Total	31,305	100	20,000,000	100
Less than marketable parcel of \$500	63		264	

Voting rights

Holders of NIS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per NIS preference share on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the NIS preference shares.

Twenty largest registered NAB Convertible Preference Shares (NAB CPS) holders as at 31 October 2016

	Number of securities	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	746,811	4.93
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	260,919	1.72
J P MORGAN NOMINEES AUSTRALIA LIMITED	222,640	1.47
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	206,154	1.36
NATIONAL NOMINEES LIMITED	185,270	1.22
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	113,108	0.75
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	107,524	0.71
DIMBULU PTY LTD	100,000	0.66
BNP PARIBAS NOMS PTY LTD <DRP>	95,927	0.63
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	84,100	0.56
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	80,591	0.53
CITICORP NOMINEES PTY LIMITED	70,347	0.46
SNEATH & KING PTY LTD <BRIDGET KING EXEC B/P A/C>	52,330	0.35
JDB SERVICES PTY LTD <RAC & JD BRICE INVEST A/C>	50,000	0.33
RANDAZZO C & G DEVELOPMENTS PTY LTD	50,000	0.33
SERVCORP HOLDINGS PTY LTD	50,000	0.33
AVANTEOS INVESTMENTS LIMITED <2477966 DNR A/C>	47,051	0.31
THE WALTER AND ELIZA HALL INSTITUTE OF MEDICAL RESEARCH	45,000	0.30
BKI INVESTMENT COMPANY LIMITED	39,775	0.26
LONGHURST MANAGEMENT SERVICES PTY LTD	38,809	0.26
Total	2,646,356	17.47

Shareholder information

Distribution of NAB CPS holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	20,937	91.13	6,976,336	46.07
1,001 – 5,000	1,860	8.10	3,848,887	25.42
5,001 – 10,000	117	0.51	907,503	5.99
10,001 – 100,000	54	0.24	1,568,122	10.36
100,001 and over	7	0.03	1,842,426	12.16
Total	22,975	100	15,143,274	100
Less than marketable parcel of \$500	13		26	

Voting rights

Holders of Convertible Preference Shares (CPS) are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per CPS on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the CPS.

Twenty largest registered NAB Convertible Preference Shares II (NAB CPS II) holders as at 31 October 2016

	Number of securities	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	855,589	4.98
PEJR PTY LTD <LEDERER GROUP A/C>	490,000	2.85
J P MORGAN NOMINEES AUSTRALIA LIMITED	271,577	1.58
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	264,243	1.54
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	210,778	1.23
LONGHURST MANAGEMENT SERVICES PTY LTD	210,000	1.22
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	209,802	1.22
EML ADMIN PTY LTD <EVA LEDERER INVESTMENT A/C>	200,000	1.16
NATIONAL NOMINEES LIMITED	159,466	0.93
BNP PARIBAS NOMS PTY LTD <DRP>	115,608	0.67
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	111,819	0.65
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	100,949	0.59
TANDOM PTY LTD	100,000	0.58
CITICORP NOMINEES PTY LIMITED	94,660	0.55
NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	89,291	0.52
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	80,030	0.47
DIMBULU PTY LTD	50,000	0.29
EASTCOTE PTY LTD <VAN LIESHOUT FAMILY A/C>	50,000	0.29
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	47,491	0.28
KGD INVESTMENTS PTY LTD <GANESH FAMILY A/C>	46,000	0.27
Total	3,757,303	21.87

Distribution of NAB CPS II holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	20,357	90.01	6,862,808	39.97
1,001 – 5,000	2,019	8.93	4,136,801	24.09
5,001 – 10,000	138	0.61	998,846	5.82
10,001 – 100,000	91	0.40	1,973,644	11.49
100,001 and over	12	0.05	3,199,831	18.63
Total	22,617	100	17,171,930	100
Less than marketable parcel of \$500	10		26	

Voting rights

Holders of Convertible Preference Shares II (CPS II) are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per CPS II on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the CPS II.

Shareholder information

Official quotation

Fully paid ordinary shares of the Company are quoted on the ASX.

The Group has also issued:

- National Income Securities, NAB Convertible Preference Shares (CPS) and NAB CPS II, NAB Capital Notes, NAB Capital Notes 2, NAB Subordinated Notes, covered bonds and residential mortgage backed securities which are quoted on the ASX.
- Trust Preferred Securities, medium-term notes, subordinated bonds and covered bonds which are quoted on the Luxembourg Stock Exchange.
- Subordinated debentures which are quoted on the Channel Islands Securities Exchange.
- Undated subordinated floating rate notes which are quoted on the London Stock Exchange.
- Medium-term notes and covered bonds which are quoted on the SIX Swiss Exchange.

Unquoted securities

NAB has the following unquoted securities on issue as at 31 October 2016:

- 47,274 partly paid ordinary shares, of which there are 54 holders; and
- 4,533,967 performance rights, of which there are 161 holders (see page 24 of this report for further details).

Shareholder information

Chairman

Dr Kenneth R Henry AC
BComm (Hons), PhD, DB h.c, FASSA, FAIIA

Group Chief Executive Officer and Managing Director

Mr Andrew G Thorburn
BCom, MBA

Chief Financial Officer

Mr Gary A Lennon
BEC (Hons), FCA

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Shareholders' Centre website

The Group's website at nabgroup.com/shareholder has a dedicated separate section where shareholders can gain access to a wide range of information, including copies of recent announcements, annual financial reports as well as extensive historical information.

Shareholders' Centre information line

There is a convenient 24 hours a day, 7 days a week automated service. To obtain the current balance of your securities and relevant payment details, telephone 1300 367 647 (Australia) or +61 3 9415 4299 (outside Australia).

These services are secured to protect your interests. In all communications with the Share Registry, please ensure you quote your Securityholder Reference Number (SRN), or in case of broker sponsored shareholders, your Holder Identification Number (HIN).

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Telephone and fax (outside Australia):
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Email: nabservices@computershare.com.au
Website: nabgroup.com/shareholder

United Kingdom Share Register

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United Kingdom

Tel: +44 370 703 0197
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Email: nabgroup@computershare.co.uk
Website: nabgroup.com/shareholder

United States ADR Depository, Transfer Agent and Registrar contact details for NAB ADR holders:

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American Stock Transfer & Trust Company
Peck Slip Station
P.O. Box 2050
NEW YORK NY 10272-2050
United States of America

Toll-free number: +1 866 706 0509
Direct Dial: +1 718 921 8137
Email: DB@amstock.com

Contact details for NAB ADR brokers & institutional investors:

US Tel: +1 212 250 9100
UK Tel: +44 207 547 6500
Email: adr@db.com

Glossary

Term Used	Description
12-months expected credit losses (ECL)	The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
AASB	Australian Accounting Standards Board.
ACCC	Australian Competition and Consumer Commission.
ADR	American depositary receipt.
AGM	Annual General Meeting
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to Authorised Deposit-taking Institutions.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange Limited.
Australian Banking	Australian Banking offers a range of banking products and services to retail and business customers, ranging from small and medium enterprises through to some of Australia's largest institutions. Australian Banking comprises Personal Banking and Business Banking franchises, Fixed Income, Currencies and Commodities (FICC), Specialised Finance, Debt Markets, Asset Servicing and Treasury.
Average assets	Represents the average of assets over the period adjusted for disposed operations. Disposed operations include any operations that will not form part of the continuing Group. These include operations sold and those which have been announced to the market that have yet to reach completion.
Average interest earning assets	The average balance of assets held by the Group that generate interest income.
Banking	Banking operations include the Group's: - Retail and Non-Retail deposits, lending and other banking services in Australian Banking, NZ Banking and NAB Wealth - Wholesale operations comprising Global Capital Markets and Treasury, Specialised Finance and Financial Institutions business within Australian Banking, and - NAB UK CRE operations and Group Funding within Corporate Functions and Other.
Basel III	Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and is effective for Australian Banks from 1 January 2013.
BBSW	Bank bill swap rate.
BNZ	Bank of New Zealand.
Business lending	Lending to non-retail customers including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
Cash earnings	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 2016 full year has been adjusted for the following: - Distributions. - Treasury shares. - Fair value and hedge ineffectiveness. - Life insurance 20% share of profit. - Amortisation of acquired intangible assets.
Cash return on equity (ROE)	Calculated as cash earnings (annualised) divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares.
CGU	Cash generating unit.
Clydesdale Bank and Yorkshire Bank	Clydesdale Bank plc.
Common Equity Tier 1 (CET1) Capital	Common Equity Tier 1 (CET1) Capital is recognised as the highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of common shares; retained earnings; undistributed current year earnings; as well as other elements as defined under APS111 - Capital Adequacy: Measurement of Capital.
Common Equity Tier 1 Ratio	Common Equity Tier 1 as defined by APRA divided by risk-weighted assets.
Company	National Australia Bank Limited (NAB) ABN 12 004 044 937.
Conduit	Special Purpose Entity (SPE) used to fund assets through the issuance of asset-backed commercial paper or medium-term notes.
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 (classified in comparative periods as investments held to maturity).
Corporate Functions and Other	Corporate Functions and Other includes functions that support all businesses including Group Funding, Other Corporate Functions activities and the results of Specialised Group Assets. Group Funding acts as the central vehicle for movements of capital and structural funding to support the Group's operations, together with capital and balance sheet management. Other Corporate Functions activities include Enterprise Services and Transformation, Australian Investment Committee and Support Units (which include Office of the CEO, Risk, Finance and Strategy and People, Communications and Governance).
Customer deposits	Interest bearing, non-interest bearing and term deposits (including retail and corporate deposits).
Customer Funding Index (CFI)	Customer deposits (excluding certain short dated institutional deposits used to fund liquid assets) divided by core assets.
CYBG Group	CYBG PLC and its controlled entities.
Demerger	The demerger of CYBG Group from NAB.
Discontinued Operations	Discontinued operations are a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, which is part of a single co-ordinated plan for disposal.
Distributions	Payments to holders of other equity instrument issues such as National Income Securities, Trust Preferred Securities, Trust Preferred Securities II and National Capital Instruments.
Dividend payout ratio	Dividends paid on ordinary shares divided by cash earnings per share.
EaR	Earnings at risk.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.
Fair value and hedge ineffectiveness	Represents volatility attributable to the Group's application of the fair value option, ineffectiveness from designated accounting and economic hedge relationships and economic hedges of significant approved funding activities where hedge accounting has not been applied.
FCA	Financial Conduct Authority (formerly the UK Financial Service Authority).
FUM/A	Funds under management and administration.
FVOCI	Fair Value through Other Comprehensive Income.
GDP	Gross Domestic Product (GDP) is the market value of the finished goods and services produced within a country in a given period of time.

Glossary

Term Used	Description
General reserve for credit losses (GRCL)	The general reserve for credit losses (GRCL) is an estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets. The reserve is a compliance requirement under APS 220 - Credit Quality. The GRCL is calculated as a collective provision for doubtful debts, excluding securitisation and provision on default no-loss assets. The difference between the GRCL and accounting collective provision is covered with an additional top-up, created through a transfer from retained earnings to a reserve, to reflect losses expected as a result of future events that are not recognised in the Group's collective provision for accounting purposes.
Group	NAB and its controlled entities.
GST	Australian Goods and Services Tax (GST) is a value added tax of 10% on most goods and services sales.
Great Western Bank (GWB)	Great Western Bancorp, Inc.
IFRS	International Financial Reporting Standards.
Impaired assets	Consist of: - Retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue - Non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest, and - Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off).
Lifetime expected credit losses (ECL)	The expected credit losses that result from all possible default events over the expected life of a financial instrument.
Liquidity Coverage Ratio (LCR)	LCR measures the amount of high quality liquid assets held that can be converted to cash easily and immediately in private markets, to total net cash flows required to meet the Group's liquidity needs for a 30 day calendar liquidity stress scenario.
Marketable debt securities	Comprises trading securities, debt instruments at fair value through other comprehensive income and other debt instruments at amortised cost (classified in comparative periods as investments - available for sale and investments - held to maturity respectively).
NAB	National Australia Bank Limited ABN 12 004 044 937.
NAB UK Commercial Real Estate (NAB UK CRE)	NAB UK CRE was created on 5 October 2012 following the transfer of certain commercial real estate loan assets from Clydesdale Bank to NAB. These loan assets are managed by the NAB London Branch.
NAB Wealth	NAB Wealth provides superannuation, investment and insurance solutions to retail, corporate and institutional clients. NAB Wealth operates one of the largest networks of financial advisers in Australia.
Net interest margin (NIM)	Net interest income as a percentage of average interest earning assets.
Net profit attributable to non-controlling interest	Reflects the allocation of profit to non-controlling interests in the Group.
Net profit attributable to owners of NAB	Represents the Group's statutory profit / (loss) after tax and reflects the amount of net profit / (loss) that is attributable to owners.
Net Promoter Score (NPS)	The Net Promoter Score is calculated as the difference between the proportion of customers who are deemed to be 'promoters' and the proportion of customers deemed 'detractors' following customer surveys.
Non-impaired assets 90+ days past due	Non-impaired assets 90+ days past due consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due.
NZ Banking	NZ Banking comprises the Retail, Business, Agribusiness, Corporate & Institutional and Insurance franchises in New Zealand, operating under the 'BNZ' brand. It excludes BNZ's markets operations which form part of Australian Banking.
PRA	United Kingdom Prudential Regulation Authority.
Risk-weighted assets (RWA)	A quantitative measure of the Group's risk, required by the APRA risk-based capital adequacy framework, covering credit risk for on- and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
RBNZ	Reserve Bank of New Zealand.
Securitisation	Structured finance technique which involves pooling and packaging cash-flow converting financial assets into securities that can be sold to investors.
SGA	Specialised Group Assets.
Special Purpose Entity (SPE)	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). An SPE may take the form of a corporation, trust, partnership or unincorporated entity. SPEs are often created with legal arrangements that impose strict limits on the activities of the SPE.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Statutory funds	A Statutory Fund is a fund that: - is established in the records of a life company. - relates solely to the life insurance business of the Company or a particular part of that business.
Successor Fund Merger	The transfer of five Group super funds into one new super fund called the MLC Super Fund, which was completed on 1 July 2016.
Term Funding Index (TFI)	Term wholesale funding (with a remaining maturity to first call date greater than 12 months) divided by core assets.
Tier 1 capital	Tier 1 capital comprises Common Equity Tier 1 (CET1) capital and instruments issued by the Group that meet the criteria for inclusion as Addition Tier 1 capital set out in APS111 - Capital Adequacy : Measurement of Capital.
Tier 1 capital ratio	Tier 1 Capital as defined by APRA divided by risk-weighted assets.
Total capital ratio	Total capital ratio is the sum of Tier 1 capital and Tier 2 capital, as defined by APRA, divided by risk-weighted assets.
Total Shareholder Return (TSR)	Total Shareholder Return (TSR) is a concept used to compare the performance of different companies' securities over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The absolute size of the TSR will vary with stock markets, but the relative position reflects the market perception of overall performance relative to a reference group.
Treasury shares	Shares in NAB held in the Group's consolidated investments businesses (up to the Successor Fund Merger on 1 July 2016) and in trust by a controlled entity of the Group to meet the requirements of employee incentive schemes. The unrealised mark-to-market movements arising from changes in the share price, dividend income and realised profit and losses arising from the sale of shares held by the Group's consolidated investment business are eliminated for statutory reporting purposes.
VaR	Value at risk.
Weighted average number of ordinary shares	Calculated in accordance with the requirements of AASB 133 'Earnings per Share'.

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