National Australia Bank

ANNUAL FINANCIAL REPORT 2017

Our vision is to be Australia and New Zealand's most respected bank

Robert Ravens
Bridestowe Lavender Estate

National Australia Bank Limited
ABN 12 004 044 937

This 2017 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 also produces 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 2017.

Certain definitions

The Group's financial year ends on 30 September. The financial year ended 30 September 2017 is referred to as 2017 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 statements that are, or may be deemed to be, forward-looking statements. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believe", "estimate", "plan", "project", "anticipate", "expect", “target”, "intend", “likely”, "may", "will", “could” or "should" or, in each case, their negative or other variations or other similar expressions, or by discussions of strategy, plans, objectives, targets, goals, future events or intentions. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. You are cautioned not to place undue reliance on such forward-looking statements.

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

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

Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained on page 11 under “Disclosure on Risk Factors”.

Rounding of amounts

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

Principal activities

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

Significant changes in the state of affairs

During the 2017 financial year, a number of changes to the composition of the Board occurred:

- Non-executive director Mr Daniel Gilbert retired from the Board on 16 December 2016.
- Non-executive director Ms Jillian Segal retired from the Board on 16 December 2016.

In addition, non-executive director Ms Ann Sherry AO was appointed to the Board on 8 November 2017.

In November 2017, NAB announced changes to its Executive Leadership Team. Ms Angela Mentis, currently Chief Customer Officer – Business and Private Banking, was appointed Managing Director and CEO of Bank of New Zealand. Mr Anthony Healy, currently Managing Director and CEO of Bank of New Zealand, was appointed Chief Customer Officer – Business and Private Banking. The appointments, which are subject to regulatory approval, will take effect from 1 January 2018.

The Group's Business

The Group is a financial services organisation with approximately 33,000 employees, operating through a network of more than 900 locations, with more than 571,000 shareholders and serving over nine million customers.

The majority of the Group's financial services businesses operate in Australia and New Zealand, with branches located in Asia, the United Kingdom (UK) and the United States (US). The Group's 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 2017 the Group operated the following divisions:

- *Consumer Banking and Wealth* comprises the NAB and UBank consumer banking divisions, and the Wealth divisions of Advice, Asset Management and Superannuation. The division provides customers with access to independent advisers, including mortgage brokers and the financial planning network of self-employed, aligned and salaried advisers in Australia.
- *Business and Private Banking* focusses on serving priority small and medium (SME) customers via the NAB Business franchise and specialist services in key segments including Agriculture, Health, Government, Education, Community and Franchise. The division also serves NAB's micro and small business customers and includes Private Banking and JBWere.

Operating and financial review (continued)

- *Corporate and Institutional Banking* provides a range of lending and transactional products and services related to financial and debt capital markets, specialised capital, custody and alternative investments. The division serves its customers in Australia and globally through branches in the US, UK and Asia with specialised industry relationships and product teams.
- *NZ Banking* comprises the Retail, Business, Agribusiness, Corporate and Insurance franchises and Markets Sales operations in New Zealand, operating under the 'Bank of New Zealand' brand. It excludes Bank of New Zealand's Markets Trading operations.

Strategic Highlights

Vision and Objectives

The Group's strategic focus supports its vision of becoming Australia and New Zealand's most respected bank. In the September 2017 full year, this was underpinned by three key objectives:

1. Our customers are advocates
2. Our people are engaged
3. Our shareholders receive attractive returns

To meet these objectives, execution was focussed around four key themes – deepening relationships in priority customer segments, delivering a great customer experience, reshaping our business to perform, and being known for great leadership, talent and people.

Deepen relationships in priority customer segments

The Group has prioritised four customer segments where it is focussing investment to deepen customer relationships. These are small and medium business customers given NAB's strong market position and attractive returns, combined with home owners and investors.

Investment in priority segments is driving improved results. This is evident in the performance of Business and Private Banking which, during the September 2017 full year, recorded positive revenue growth on higher volumes and stronger margins.

Delivering a great customer experience and reshaping our business to perform

The Group uses the Net Promoter Score (NPS) [(1)] system to access real-time, targeted feedback so it can understand and improve the customer experience. For the September 2017 full year, our priority segment NPS [(1)] [(2)] was first of the major peer banks.

The Group is committed to using customer feedback and a new way of working to transform the end-to-end customer experience across a range of products and channels. This is known as Customer Journeys.

In the September 2017 full year, the Group launched seven Customer Journeys aimed at driving customer advocacy through increased efficiencies and improved interactions with customers. Examples include:

- A new 10 minute digital transaction account onboarding for business customers with simple needs, significantly reducing processing time for onboarding new customers and removing the need for a customer to visit a branch.
- A faster, easier application process for Everyday Accounts, reducing application time to seven minutes.
- A simplified digital Superannuation portal to help customers better understand their retirement options and e-forms pre-populated with existing customer data.
- A virtual banking assistant pilot for business customers using artificial intelligence chat technology to help customers fulfill simple needs through self-service.

The Group continues to enhance its products and services for customers through digitisation and innovation, as evidenced by:

- Enabling small business customers to access funding quickly with QuickBiz unsecured lending expanded to include business cards and overdraft facilities.
- The launch of the HICAPS Go mobile app solution in partnership with start-up, Medipass Solutions, which allows health patients to book and pay for services via their mobile device while receiving full transparency of costs, and for practitioners removes the need for a physical terminal.

The Group is also exploring new strategic alliances and direct equity investments through its dedicated innovation fund, NAB Ventures, to fast-track improvements in customer experience and leverage innovative new technologies and business models. Examples of investments made during the September 2017 full year include investments in Veem (business-to-business global payments) and Wave (a cloud-based integrated suite of small business tools including accounting, invoicing, payments, and payroll for micro businesses).

Great leadership, talent and people

The Group is committed to attracting, developing and inspiring talent to drive a culture that delivers high performance. Key initiatives during the September 2017 full year include:

- Significant investment in senior executive assessment to understand organisational leadership strengths driving performance.
- Implementing targeted development programs including accelerated streams for high potential female talent and executives identified as key talent.
- Introducing a new performance framework with leaders accountable for coaching every day, supported by monthly performance and development conversations.
- Investment in new technology to track performance, talent, capability and deliver leadership data and insights.

Generating attractive returns

The Group has continued to shift its portfolio towards business with higher returns where it has strong capability to compete. For the September 2017 full year, the Group delivered a statutory ROE of 10.9% and a cash ROE of 14.0% on a continuing operations basis.

Maintain and strengthen our foundations

The Group underpins its strategy by maintaining strong foundations: balance sheet strength (including capital, funding and liquidity), risk management capability (including credit and operational risk) and core technology platforms and infrastructure.

The Group remained well capitalised during the September 2017 full year, and expects to meet APRA's new 'unquestionably strong' capital requirements in an orderly manner by 1 January 2020. The Common Equity Tier 1 (CET1) ratio as at 30 September 2017 was 10.1%.

(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 four priority segments: Home Owners, Investors, Small Business ($0.1m-<$5m) and Medium Business ($5m-<$50m). The Priority Segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research.*

Operating and financial review (continued)

The Group has maintained strong liquidity through the September 2017 full year with a quarterly average Liquidity Coverage Ratio (LCR) of 123%, which is above the APRA requirement of 100%. The 30 September 2017 Net Stable Funding Ratio (NSFR) was 108%, above the APRA minimum regulatory requirement of 100% from 1 January 2018.

Overall credit risk in the Group's portfolio remains sound, and bad and doubtful debts are stable. Portfolio concentrations are managed with reference to established Group risk appetite settings.

Accelerating our strategy

The environment in which the Group operates is one of rapid and constant change. The Group's customers are now largely 'digital-first' and expect seamless, personal experiences. New competitors continue to emerge, and community and regulatory expectations have never been greater. The risks faced by the Group are constantly evolving, requiring ever greater vigilance around cybercrime and data protection.

The Group is optimistic about the future and the opportunities for NAB in a changing world, and moves forward in a much stronger position. This allows the Group to plan for the longer term and, on 2 November 2017, the Group announced an acceleration of its strategy to enable the Group to grow while staying focussed on productivity.

This includes an estimated $1.5 billion increase in investment over the next three years. A key focus will be driving a major uplift in innovation and capabilities in the Group's leading Australian SME franchise. The timing and amount of investment spend may vary depending on the operating environment.

The Group expects this to deliver benefits including:
- Improved customer experience with fewer, simpler products, delivered by digital channels.
- Cumulative cost savings, currently targeted at greater than $1 billion by 30 September 2020, as the Group significantly simplifies and automates processes, reduces procurement and third party costs, and gets closer to its customers with a flatter organisational structure.
- Increased revenue from higher customer retention and targeted market share gains.
- Reduced operational and regulatory risks from a simplified, more responsive and resilient technology environment.

The Group is reshaping its workforce to enable it to deliver for its customers and by 30 September 2020 expects to create up to 2,000 new jobs while about 6,000 roles will be impacted as the Group further automates and simplifies its business. This will result in a net reduction in staff currently targeted at approximately 4,000 by 30 September 2020, which is expected to give rise to a restructuring provision of $0.5-0.8 billion in the first half of the 2018 financial year. Throughout this process, the Group will treat its people with care and respect and equip them for the future.

Reflecting the accelerated investment impact, September 2018 full year expenses are expected to grow 5-8%, with expenses then targeted to remain broadly flat through to 30 September 2020 (excluding the restructuring provision and large one-off expenses). Taking account of the near term impact of these changes, the Board expects to maintain dividends for the September 2018 full year at the same level as the September 2017 full year, subject to no material change in the external environment and satisfactory Group financial performance.

The Group has set four new aspirational objectives:
- NPS positive and number 1 NPS of Australian major banks for the Group's priority segments.
- Cost-to-income ratio towards 35%.
- Number 1 ROE of Australian major banks.
- Top quartile employee engagement.

The Group plans to achieve these by being the best business bank; becoming simpler and faster for its customers and its people; focussing on new and emerging growth opportunities; and having great leaders, talent and culture.

This is an ambitious and necessary plan. It will enable the Group to continue to deliver for all its stakeholders, live its purpose to 'back the bold who move Australia forward' and achieve the Group's vision to be Australia and New Zealand's most respected bank.

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.

Non-IFRS key financial performance measures used by the Group

Certain financial measures detailed in the Directors' Report are not accounting measures within the scope of IFRS. Management review these financial metrics in order to measure the Group's overall financial performance and position and believe the presentation of these industry standard financial measures provides useful information to analysts and investors regarding the results of the Group's operations and allows ready comparison with other industry participants. These financial performance measures include:
- Cash earnings
- Statutory ROE
- Cash ROE
- Net Interest Margin (NIM)
- Average equity (adjusted)
- Average interest earning assets
- Average assets.

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

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

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

Information about cash earnings

Cash earnings is a non-IFRS key financial performance measure used by the Group, the investment community and NAB's Australian peers

Operating and financial review (continued)

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 70 to 72 in *Note 2 Segment information* in the *Financial report.*

Information about net interest margin

Net interest margin (NIM) is a non-IFRS key financial performance measure that is calculated as net interest income (derived on a cash earnings basis) expressed as a percentage of average interest earning assets. A full reconciliation between statutory net interest income and cash earnings derived net interest income including non-cash explanations is included on pages 70 to 72 in *Note 2 Segment information* in the *Financial report.* Further information in respect of average interest earning assets is included under the heading 'Average balances' below and in the Glossary.

Average balances

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

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

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

Operating and financial review (continued)

5 Year Financial Performance Summary

	Group [1]				
	2017	**2016**	**2015**	**2014** [2]	**2013** [2]
	$m	**$m**	**$m**	**$m**	**$m**
Net interest income	**13,182**	12,930	12,462	13,415	13,351
Total Other income	**4,842**	5,192	5,975	5,441	4,852
Total Operating expenses	**(8,539)**	(8,331)	(8,189)	(10,227)	(8,305)
Charge to provide for bad and doubtful debts	**(824)**	(813)	(733)	(847)	(1,810)
Profit before income tax expense	**8,661**	8,978	9,515	7,782	8,088
Income tax expense	**(2,480)**	(2,553)	(2,709)	(2,598)	(2,725)
Net profit for the period from continuing operations	**6,181**	6,425	6,806	5,184	5,363
Net (loss) / profit after tax for the year from discontinued operations	**(893)**	(6,068)	(414)	114	-
Net profit for the year	**5,288**	357	6,392	5,298	5,363
Attributable to owners of NAB	**5,285**	352	6,338	5,295	5,355
Attributable to non-controlling interests	**3**	5	54	3	8

Group performance indicators	Year to				
	Sep 17	**Sep 16**	**Sep 15**	**Sep 14**	**Sep 13**
Key Indicators					
Statutory earnings per share (cents) - basic [3]	**194.7**	8.8	252.7	219.0	225.9
Statutory earnings per share (cents) - diluted [3]	**189.1**	15.5	245.4	215.4	224.0
Statutory return on equity	**10.9%**	0.5%	15.2%	12.1%	13.0%
Cash return on equity	**14.0%**	14.3%	14.8%	11.6%	14.1%
Profitability, performance and efficiency measures					
Dividend per share (cents)	**198**	198	198	198	190
Net interest margin [1]	**1.85%**	1.88%	1.90%	1.91%	2.02%
Capital					
Common Equity Tier 1 ratio	**10.06%**	9.77%	10.24%	8.63%	8.43%
Tier 1 ratio	**12.41%**	12.19%	12.44%	10.81%	10.35%
Total capital ratio	**14.58%**	14.14%	14.15%	12.16%	11.80%
Risk-weighted assets ($bn) [4]	**382.1**	388.4	399.8	367.7	362.1
Volumes ($bn)					
Gross loans and acceptances [1] [4] [5]	**565.1**	545.8	521.9	537.6	522.1
Average interest earning assets [1]	**711.3**	689.5	658.1	703.0	661.6
Total average assets [1]	**798.8**	855.8	864.6	853.4	802.5
Customer deposits [4]	**407.6**	390.5	362.0	383.0	428.4
Average equity (adjusted) - Statutory	**47.5**	44.3	40.5	42.0	39.5
Average equity (adjusted) - Cash	**47.5**	45.5	42.2	43.6	40.8
Asset quality					
90+ days past due and gross impaired assets to gross loans and acceptances [1]	**0.70%**	0.85%	0.63%	1.19%	1.69%
Other					
Funds under management and administration (FUM/A) (spot) ($bn) [6]	**133.8**	125.0	N/A	N/A	N/A
Assets under management (AUM) (spot) ($bn) [6]	**195.3**	184.9	N/A	N/A	N/A
Full Time Equivalent Employees (FTE) (spot) [1]	**33,422**	34,263	33,894	41,420	42,164
Full Time Equivalent Employees (FTE) (average) [1]	**33,746**	34,567	34,148	41,153	42,783

(1) *Information is presented on a continuing operations basis. September 2015 was restated for the demerger of CYBG and the sale of 80% of Wealth's life insurance business to Nippon Life in September 2016, with the exception of APRA information (capital). September 2014 was restated for the sale of Great Western Bancorp Inc. but has not been restated for the demerger of CYBG, the sale of 80% of the Wealth's insurance business to Nippon Life nor APRA information (capital). No further comparative periods have been restated. The Group's consolidated financial statements for the financial years ended 30 September 2013, 2014 and 2015 can be found in the corresponding reports published by the Group for the respective periods.*

(2) *AASB 9 "Financial Instruments" was adopted from 1 October 2014. 2013 and 2014 periods were not restated.*

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

(4) *Spot balance as at reporting date.*

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

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

September 2017 v September 2016

On a statutory basis, net profit attributable to owners of NAB increased by $4,933 million mainly due to the loss on discontinued operations in 2016. From a continuing operations perspective, statutory net profit attributable to owners of NAB decreased by $242 million or 3.8% mainly driven by unfavourable volatility in fair value and hedge ineffectiveness. The volatility largely relates to the Group's long term funding portfolio and is income neutral over the full term of transactions.

Net interest income increased $252 million or 1.9% including a decrease of $281 million that was offset by movements in economic hedges in other operating income. The underlying increase was driven by growth in both housing and business lending volumes, combined with repricing activity. These movements were partially offset by a

Operating and financial review (continued)

lower earnings rate on capital and the impact of the bank levy for the final quarter of the 2017 financial year.

Total other income decreased by $350 million or 6.7%. This includes an increase of $281 million due to movements in economic hedges, offset in net interest income. The underlying decrease was largely driven by unfavourable movements in fair value and hedge ineffectiveness, combined with lower sales of risk management products to the Group's customers as a result of reduced market volatility, and lower Wealth income largely from margin compression. This was partially offset by higher gains in Treasury from the narrowing of credit spreads in the liquidity portfolios.

Total operating expenses increased by $208 million or 2.5% driven by continued investment in technology and associated depreciation and amortisation charges, higher redundancy costs, the impact of annual salary increases and provisions for regulatory remediation and legal costs. These were partially offset by productivity benefits including workforce restructuring, digitisation, and reduction in third party spend.

The charge to provide for bad and doubtful debts increased by $11 million or 1.4% due to higher collective provision charges primarily driven by overlays for the commercial real estate, retail trade and mortgage portfolios. This was partially offset by improvements in credit quality across business lending, and the New Zealand dairy portfolio, resulting in a lower level of new impairments.

Income tax expense decreased by $73 million or 2.9% largely due to a decrease in profit before tax.

Review of Group and Divisional Results

	Group	
	2017[(1)]	2016[(1)]
	$m	$m
Consumer Banking and Wealth	**1,633**	1,565
Business and Private Banking	**2,841**	2,673
Corporate and Institutional Banking	**1,535**	1,367
NZ Banking	**882**	804
Corporate Functions and Other [(2)]	**(249)**	74
Cash earnings	**6,642**	6,483
Non-cash earnings items	**(464)**	(63)
Net (loss) from discontinued operations	**(893)**	(6,068)
Net profit attributable to owners of NAB	**5,285**	352

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

[(2)] *Corporate Functions & Other includes Treasury, Technology and Operations, and Support Units.*

September 2017 v September 2016

Group

Cash earnings increased by $159 million or 2.5% largely driven by higher net interest income from increased volumes and repricing, partially offset by higher operating expenses largely from continued investment in the business, net of productivity savings. The charge for bad and doubtful debts rose slightly due to increased collective provision overlays.

Consumer Banking and Wealth

Cash earnings increased by $68 million or 4.3% driven by balance sheet growth and repricing. This was partially offset by reduced Wealth income mainly from margin compression and higher expenses from continued investment in core banking technology, the mobile platform and the Wealth business, net of productivity savings.

Business and Private Banking

Cash earnings increased by $168 million or 6.3% driven by balance sheet growth and repricing benefits in the lending portfolio. This was partially offset by higher expenses from continued investment in technology and associated depreciation and amortisation charges, net of productivity savings, and increased charges for bad and doubtful debts from higher write-backs recognised in 2016.

Corporate and Institutional Banking

Cash earnings increased by $168 million or 12.3% largely driven by lower charges for bad and doubtful debts and productivity and FTE savings. Productivity savings were achieved through restructuring operations and simplification of infrastructure and back office support services. Revenue was flat with growth in business lending and lower funding costs offset by lower revenue from sales of customer risk management products.

NZ Banking

Cash earnings increased by $78 million or 9.7% driven by strong growth in both housing and business lending, partially offset by a weaker net interest margin mainly due to lower earnings on capital as a result of a low interest rate environment and a competitive market for deposits. This was combined with a decrease in the charge to provide for bad and doubtful debts mainly driven by a recovery in the dairy portfolio. This was partially offset by higher expenses from continued investment in digital capabilities and associated depreciation and amortisation charges, net of productivity savings.

Corporate Functions and Other

Cash earnings decreased by $323 million mainly due to higher expenses from redundancy costs recognised centrally and higher collective provision overlays within the Australian portfolio. This was combined with lower income from capital management, funding and risk management activities within Treasury and non-recurring asset sales in the 2016 financial year.

Group Balance Sheet Review

	Group	
	2017	2016
	$m	$m
Assets		
Cash and liquid assets	**43,826**	30,630
Due from other banks	**37,066**	45,236
Trading derivatives	**29,137**	43,146
Trading securities	**50,954**	45,971
Debt instruments at fair value through other comprehensive income	**42,131**	40,689
Other financial assets at fair value	**16,058**	21,496
Loans and advances	**540,125**	510,045
Due from customers on acceptances	**6,786**	12,205
All other assets	**22,242**	27,292
Total assets	**788,325**	776,710
Liabilities		
Due to other banks	**36,683**	43,903
Trading derivatives	**27,187**	41,559
Other financial liabilities at fair value	**29,631**	33,224
Deposits and other borrowings	**500,604**	459,714
Bonds, notes and subordinated debt	**124,871**	127,942
Other debt issues	**6,187**	6,248
All other liabilities	**11,845**	12,805
Total liabilities	**737,008**	725,395
Total equity	**51,317**	51,315
Total liabilities and equity	**788,325**	776,710

Operating and financial review (continued)

September 2017 v September 2016

Total assets increased by $11,615 million or 1.5%. The increase was mainly due to net growth in cash and liquid assets, due from other banks and trading securities of $10,009 million or 8.2% reflecting the Group’s management of liquidity during the period. In addition, there was an increase in loans and advances due to growth in housing lending in both Australia and New Zealand, combined with growth in non-housing lending reflecting the Group’s focus on priority business segments. These increases were partially offset by a decrease in trading derivative assets of $14,009 million or 32.5% predominantly driven by foreign exchange rate and interest rate yield movements during the period.

Total liabilities increased by $11,613 million or 1.6%. The increase was due to growth in deposits and other borrowings mainly to support the increase in the lending and liquidity portfolios. This increase was partially offset by a decrease in trading derivative liabilities of $14,372 million or 34.6% in line with the decrease in trading derivative assets above. Total equity was largely flat during the period.

Capital Management and Funding Review

Balance Sheet Management Overview

The Group aims to maintain a strong capital, funding and liquidity position, in line with its ongoing commitment to balance sheet strength. This includes:
- Seeking to maintain a well-diversified wholesale funding portfolio which accesses a range of funding and capital options across various senior, subordinated, secured and hybrid markets.
- Continuing to assess its position in order to accommodate changing market conditions and regulatory requirements.

Regulatory Reform

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

Federal Government’s Financial System Inquiry (FSI):
- In July 2017, APRA announced changes to its approach in setting capital standards such that capital ratios are deemed to be ‘unquestionably strong’. APRA has advised that the major Australian banks, including NAB, are expected to have Common Equity Tier 1 capital ratios of at least 10.5 per cent to meet the ‘unquestionably strong’ benchmark by 1 January 2020. An APRA consultation on draft capital standards is expected in the near future.

Basel III:
- The September 2017 Leverage Ratio is disclosed within NAB’s September 2017 Pillar 3 Report. The minimum Leverage Ratio is yet to be determined by APRA.
- The Basel Committee on Banking Supervision (BCBS) has announced its revised market risk framework, which is due to come into effect from 2019 globally. APRA has advised domestic implementation is not expected prior to 2021. The Credit Valuation Adjustment (CVA) framework is currently in BCBS consultation.
- In December 2016, APRA released an amended Prudential Standard APS 210 "Liquidity", which includes the Net Stable Funding Ratio (NSFR) requirement. A ratio of at least 100% is required on both a Level 1 and Level 2 basis from 1 January 2018.

Total Loss-Absorbing Capacity:
- The Financial Stability Board (FSB) issued the *Total Loss-Absorbing Capacity (*TLAC) standard in November 2015 for global systemically important banks (G-SIBs). In line with the recommendations in the FSI, APRA could implement a loss-absorbing capacity framework in accordance with emerging international practice. At this stage, APRA has 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 BCBS Standards are expected in the near future, 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

Other regulatory changes of note include:
- On 1 April 2017, the Group transitioned to a revised Level 2 Group structure, which had an immaterial impact on the Group’s capital position. Remaining transitional arrangements arising from debt issued directly by National Wealth Management Holdings Limited (NWMH) are no longer required.
- APRA's revisions to Prudential Standard APS 120 "Securitisation" bring together proposals to simplify securitisation for originating Authorised Deposit-taking Institutions (ADIs) and the updated BCBS securitisation framework. The revised APS 120 will take effect from 1 January 2018.
- APRA’s consultation on the standardised approach to counterparty credit risk (SA-CCR) introduces the new Prudential Standard APS 180 "Counterparty Credit Risk". These requirements will not take effect until January 2019 at the earliest.
- APRA's standards on the non-capital components of the supervision of conglomerate groups (Level 3 framework) took effect on 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 that implementation will be no earlier than 2019.
- In March 2017, the RBNZ announced a review of the framework for New Zealand banks’ capital requirements. The review is in the initial consultation phase. The RBNZ has signalled its intention to conclude the review in early 2018.

Capital Management

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

The Group’s capital ratio operating targets are regularly reviewed in the context of the external economic and regulatory outlook with the objective of maintaining balance sheet strength. The Group expects that it can meet the new 'unquestionably strong' capital requirements in an orderly manner by 1 January 2020.

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 the Term Funding Index (TFI). The CFI represents the proportion of the Group's core assets that are funded by customer deposits. Similarly, the TFI represents the proportion of the Group's core assets that are funded by term wholesale funding with a remaining term to maturity of greater than 12 months.

The SFI increased over the September 2017 full year from 91% to 93%. The TFI has strengthened to 23% at the September 2017 full year supported by term wholesale funding issuance of $36.8bn. Term wholesale funding issuance over the September 2017 full year has been executed in excess of term wholesale funding maturities. The CFI increased to 70% with the focus on improving the quality of the deposit portfolio.

The Group has continued to focus on managing its funding profile over the September 2017 full year in preparation for compliance with the Net Stable Funding Ratio (NSFR) which applies from 1 January 2018. The Group's NSFR at 30 September 2017 was 108%.

Customer Funding

The Group has continued to grow deposits over the September 2017 full year. NAB's deposit strategy is to grow a stable and reliable deposit base informed by market conditions, funding requirements and customer relationships.

The Monthly Banking Statistics published by APRA show that for the 12 months ended 30 September 2017, NAB has grown Australian domestic household deposits by 5.7% (0.9x system), business deposits (excluding deposits from financial corporations) by 4.4% (0.6x system) and deposits from financial institutions by 7.0% (0.8x system).

Term Wholesale Funding

Global funding conditions remained supportive of term wholesale funding issuance across all major markets during the September 2017 full year, despite some periods of instability driven by global events. Credit spreads widened at the start of the September 2017 full year as the market cautiously monitored the lead up to the US presidential elections. Post the election, market conditions and credit spreads globally have continued to improve. Whilst current conditions are reasonably stable, markets remain sensitive to ongoing macroeconomic, geo-political and financial risks. Despite being downgraded, along with the other major banks, by Moody's Investor Services, the Group continued to see strong investor demand for its debt.

The Group maintains a well-diversified funding profile based across issuance type, currency, investor location and tenor, and raised $36.8 billion during the September 2017 full year.

NAB raised $31.9 billion, including $26.7 billion senior unsecured, $3.9 billion of secured funding (comprised of covered bonds) and $1.3 billion of Tier 2 subordinated debt. BNZ raised $4.9 billion during the September 2017 full year.

The weighted average maturity of term wholesale funding raised by the Group over the September 2017 full year was approximately 4.8 years to the first call date. The weighted average remaining maturity of the Group's term wholesale funding portfolio is 3.4 years.

Short-term Wholesale Funding

The Group maintained consistent access to international and domestic short-term wholesale funding markets during the September 2017 full year.

Reliance on offshore short term wholesale funding reduced slightly over the September 2017 full year to 7.3% of total funding and equity.

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

Liquid Asset Portfolio

The Group maintains well-diversified and high quality liquid asset portfolios to support regulatory and internal requirements in the various countries in which it operates. The market value of total liquid assets held as at 30 September 2017 was $124 billion excluding contingent liquidity. This represents a reduction of $7 billion from 31 March 2017 and increase of $6 billion from 30 September 2016.

Liquid asset holdings include $108 billion of regulatory liquid assets (consisting of both High Quality Liquid Assets (HQLA) and Committed Liquidity Facility (CLF) eligible assets) as at 30 September 2017.

In addition, the Group holds internal securitisation pools of Residential Mortgage Backed Securities (RMBS) as a source of contingent liquidity and to support the CLF. Unencumbered internal RMBS held at 30 September 2017 was $44 billion (post applicable central bank deduction).

Liquid assets that qualify for inclusion in the Group's LCR and Internal RMBS (net of applicable regulatory deductions) were on average $136 billion for the quarter ending 30 September 2017 resulting in an average Group LCR of 123%.

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: NAB AA-/Aa3/AA- (S&P/Moody's/Fitch); BNZ AA-/A1/AA- and NWMH A (S&P).

On 19 June 2017, Moody's revised its Australian Macro Profile to "Strong +" from "Very Strong --" reflecting Moody's view of elevated risks in the household sector. As a result, Moody's revised Baseline Credit Assessments and Counterparty Risk Assessments for 12 Australian banks and their affiliates. Moody's also downgraded the long term ratings of the four major Australian banks, including NAB. NAB's long term rating was downgraded to Aa3 from Aa2 and Baseline Credit Assessment to a2 from a1. NAB's short-term rating was affirmed at P-1. On 19 June 2017, Moody's revised long-term ratings of four major New Zealand Banks, including BNZ, in line with their parents, to A1 from Aa3.

On 4 September 2017, S&P revised its long term rating of NWMH from A+ to A, and removed it from CreditWatch. The change reflects S&P's view of NWMH following the completion of the divestment of Wealth's life insurance business.

Operating and financial review (continued)

Dividends

The directors have declared a final dividend of 99 cents per fully paid ordinary share, 100% franked, payable on 13 December 2017. The proposed payment amounts to approximately $2,659 million. The Group periodically adjusts the Dividend Reinvestment Plan (DRP) to reflect the capital position and outlook. The Group will offer a 1.5% discount on the DRP, with no participation limit.

Dividends paid since the end of the previous financial year:
- The final dividend for the year ended 30 September 2016 of 99 cents per fully paid ordinary share, 100% franked, paid on 13 December 2016. The payment amount was $2,630 million.
- The interim dividend for the year ended 30 September 2017 of 99 cents per fully paid ordinary share, 100% franked, paid on 5 July 2017. The payment amount was $2,649 million.

Information on the dividends paid and declared to date is contained in *Note 29 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%. New Zealand imputation credits have also been attached to the dividend at a rate of NZ$0.10 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 improved towards the end of calendar year 2016 and, after a pause early in calendar year 2017, lifted again in mid-2017. As a result growth is heading back to its trend pace. The improvement has been led by advanced economies:
- The US economy continues to show moderate growth.
- The economic recovery in the Euro-zone is now firmly established.
- Fears of a sharp downturn in China's economy have receded but it remains on a longer-term slowing trend.
- Brazil and Russia have moved out of recession but growth in the Indian economy has slowed.

The upturn in activity was initially accompanied by a solid recovery in commodity prices over calendar year 2016 and into early calendar year 2017, although they have subsequently eased.

The focus of major advanced economy central banks has generally shifted away from easing monetary policy to when to tighten it.
- The US Federal Reserve has been raising rates, and has started the process of winding back its balance sheet.
- The European Central Bank has removed its interest rate easing bias and it will reduce the size of its monthly net asset purchases from January 2018.
- The Bank of England has raised Bank Rate and is flagging further gradual rate rises.
- The Bank of Japan, despite struggling to meet its inflation target, is not providing any indications that it will further loosen policy.

Risks around the global outlook now centre on a range of geo-political risks. However, the global economy has been resilient in recent years and the outlook is for global growth to show a further modest lift in calendar year 2018.

Australian Economy

The Australian economy grew by 1.8% over the year to the June quarter 2017, and while Australia has now gone 26 years without a recession, this represents the weakest annual growth rate since the global financial crisis in 2009. However, activity picked up in the June quarter, with GDP up 0.8% on the previous quarter. The modest annual growth rate reflects:
- A fall in dwelling construction over the year to the June quarter 2017; however, the construction pipeline remains at a high level.
- Below average consumer spending, despite households lowering their savings to fund spending.
- Strong government investment.
- A detraction from net exports with weather disruptions negatively affecting exports and import growth strong.
- Falling business investment, principally reflecting weakness in non-dwelling construction driven by the mining sector. However, the worst of the fall-off may have passed with underlying private business investment increasing in the last three quarters, while non-mining business investment intentions have improved.

Nominal income growth, which has been modest by historical standards in recent years, strengthened over the year to the March quarter 2017, before easing in the June quarter, similar to the pattern in commodity prices. In world price terms, the RBA commodity price index rose by 60% between January 2016 and February 2017, although subsequently prices eased again, giving up around one-third of this gain by October. The gains in national income are reflected in increased corporate profits, but household disposable income growth remains subdued.

Growth is expected to be stronger in the second half of calendar year 2017 as LNG exports continue to increase and coal and iron ore exports return to normal levels. Growth is expected to tail off somewhat through the following two years as LNG exports and dwelling construction peak at high levels and no longer contribute to growth. In year-average terms growth is expected to be 2.4% in calendar year 2017 and 2.8% in calendar year 2018. Within these national aggregates there continues to be a wide disparity in conditions across industries and geographies.

Agricultural prices are mixed but recent data has been lower overall. NAB's Rural Commodities Index was down 7.8% in AUD terms over the year to October 2017. After a good season last year, parts of Australia (especially in NSW and Queensland) have experienced tough growing conditions. Yields are likely to disappoint in these areas and livestock producers may face a shortage of feed.

The labour market has been improving although wages growth remains subdued:
- Employment growth has strengthened.
- The unemployment rate has eased from 5.9% in March 2017 to 5.5% in September 2017. However, there is still is a high level of underemployment.
- Wages pressure remains limited. Growth in the wage price index has been slowing since 2012, and it only grew by 1.9% over the year to the June quarter 2017.

Dwelling prices in Australian capital cities continue to rise:
- The CoreLogic hedonic dwelling price index for the eight capital cities grew by 7.0% over the year to October 2017, down from the peak seen earlier in the year.
- Annual price growth has been strongest in Melbourne and Hobart. Sydney dwelling prices in October were 7.7% higher than a year ago, but have fallen over the last three months. Prices have also fallen in Perth and Darwin over the last year.

Total system credit growth remains modest by historical standards.
- Overall annual housing credit growth has been steady since mid-2016. In recent months the momentum of investor housing credit growth has slowed, likely due to prudential measures

Operating and financial review (continued)

announced in March 2017, but this has been largely offset by stronger owner-occupier credit.
- Annual business credit growth has slowed since April 2016, although it has shown improvement in recent months, while other personal credit is falling.

Underlying consumer price inflation in the September quarter 2017 was slightly below the RBA's 2-3% target band. However, if the expected growth in the economy is realised, the unemployment rate should ease further and give the RBA confidence that inflation will move to within the target band over time. This would provide the basis for the RBA to raise rates in the second half of calendar year 2018.

New Zealand Economy

While the outlook for the New Zealand (NZ) economy remains broadly positive, and the economy has been performing strongly, analysts are now assessing the impact of the change in government on economic policies and outcomes. It will take time to assess the full implications of the new government's policies as and when fuller details emerge. Prior to the election, GDP growth had already eased to 2.5% over the year to the June quarter 2017 but growth remained within the range experienced since calendar year 2014.

Over the year to the June quarter 2017 consumption and government spending growth was strong. Business investment growth was also solid and business investment intentions are robust.

Residential building investment in the June quarter 2017 was a little lower than a year ago. However, as a percentage of GDP it remains robust and the number of building consents have rebounded from their recent lows.

Factors that have been supporting economic growth include:
- Strong population growth due to high net inward migration.
- Tourism, with short-term visitor arrivals for the year to September 2017 8.6% higher than in the year to September 2016.
- Low interest rates. The official cash rate is currently at an historically low 1.75%.
- A recovery in commodity prices, which has helped take the merchandise terms of trade back to around record levels.

Commodity export prices increased between April 2016 and September 2017, but have since levelled out and remain below previous highs.
- Between April 2016 and September 2017 commodity export prices grew by around 30% in world price terms and by over 20% in NZ dollar terms. However, in world price terms they were still below their early 2014 peak.
- Dairy export prices in September 2017 were almost 60% higher than in April 2016 (world price terms) but are still more than 30% below their peak. Fonterra's 2016/17 farmgate milk price was NZ $6.12 per kg milk solids, well above the 2015/16 season price of NZ $3.90. A further moderate improvement in the farmgate milk price for the 2017/18 season is expected. Non-dairy commodity export prices generally remain mixed-to-strong.

The housing market has been cooling:
- The REINZ's House Price Index grew by only 2.1% between September 2016 and September 2017. House prices in Auckland have eased a little from their 2016 peak but have stabilised in recent months. In the rest of the country annual house price growth has slowed.
- The number of house sales has fallen across much of the country.
- According to the RBNZ, the slowdown in house price growth is due to loan-to-value restrictions, tighter credit conditions and affordability constraints. The recent election process may have slowed property market activity more generally.

The labour market continues to strengthen.
- The unemployment rate has gradually trended down since 2012, and was 4.6% in the September quarter 2017, its lowest rate since 2008.
- Wages growth remains moderate but has started to improve.

The relatively low unemployment rate highlights the headwind to growth from emerging domestic capacity constraints. Other measures also suggest growing supply constraints.

Private sector resident credit growth has eased.
- Credit growth was 5.8% over the year to September 2017, down from its most recent peak of 7.8% over the year to October 2016.
- This reflects a slowing in agriculture, other business and housing credit growth. In contrast, consumer credit growth strengthened over this period.

Outlook

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

Disclosure on Risk Factors

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

Set out below are the principal risks and uncertainties associated with the Company and its controlled entities (the Group). These risks and uncertainties are not listed in order of significance and it is not possible to determine the likelihood of 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 could be materially and 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 majority of the Group's businesses operate in Australia and New Zealand (NZ), with branches located in Asia, the United Kingdom (UK) and the United States (US). The business activities of the Group are dependent on the nature and extent of banking and financial services and products required by its customers globally. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, market interest rates, economic and financial market conditions and forecasts.

Domestic and international economic conditions and forecasts are influenced by a number of macro-economic factors, such as: economic growth rates, cost and availability of capital, central bank intervention, inflation and deflation rates, and market volatility and uncertainty. This may lead to:
- Increased cost of funding or lack of available funding.

Operating and financial review (continued)

- Deterioration in the value and liquidity of assets (including collateral).
- An inability to price certain assets.
- Increased likelihood of customer or 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.
- A lack of available or suitable derivative instruments for hedging purposes.
- Lower growth in business revenues and earnings. In particular, the Group's wealth business earnings are highly dependent on asset values, particularly the value of listed equities.
- Increased cost of insurance, lack of available or suitable insurance, or failure of the insurance underwriter.

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

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

- Subdued growth in several large economies in recent years as the pace of expansion was curbed by weak household income growth, as well as a sluggish recovery in business investment from the deep recession of 2008. Rapid expansion in China and India, large emerging market economies, highlights the dependence of the global economic upturn on developments in a small number of key economies.
- Historically low interest rates limit the extent to which monetary policy can be used to reduce the impact of cyclical downturn in economic conditions. In addition, high levels of public debt relative to GDP could complicate efforts in many economies, which are part of the Organisation for Economic Cooperation and Development, to use fiscal policy (tax cuts or increased public spending) to stabilise economic activity in the face of an economic downturn.
- Without sustained economic growth, existing high household debt ratios present ongoing risks particularly in the event of any cyclical economic downturns. Even in the absence of a downturn, high debt levels may constrain future credit growth. Structural changes in the economy that could affect wages growth and the distribution of income may also impact future credit growth and asset quality.
- Higher government debt ratios in many advanced economies may also impact sovereign credit ratings and the terms and availability of market funding for government debt. Decreases in the sovereign credit rating of Australia may have an adverse impact on the Australian banks, including the Company and NZ banks owned by Australian parent banks. Likewise, decreases in NZ's sovereign credit rating would be expected to impact credit ratings for the Group's businesses based in NZ.
- 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 European banking system problems have the potential to create disruptions in global financial markets, raising 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.
- As interest rates in developed economies are expected to gradually 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. In some countries, key assets like houses and sovereign bonds have been trading at high valuations by historical standards. Liquidity in markets can also decrease unexpectedly, and market volatility may increase following a shock to financial markets and economic conditions. Previous periods of tightening monetary policy in the US were associated with greater volatility in the volume and pricing of capital flows in emerging market economies. Capital importing economies, including Australia and NZ, are generally vulnerable to a sudden or marked change in global interest rates and broader financial conditions.
- Continued economic growth in China is important to Australia and NZ, with ongoing concerns that its rapid pace of growth could slow sharply. Due to its export mix, Australia's economy is 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 risk to its banking system with potential flow-on impacts to credit availability and liquidity and to the broader Chinese economy.
- As commodity exporting economies, Australia and NZ are exposed to shifts in global commodity prices that can be sudden, sizeable and difficult to predict. Swings in commodity markets can affect key economic variables like national income, tax receipts and exchange rates. Previous sharp declines in commodity prices in Australia and NZ were driven by sub-trend global growth constraining demand, combined with increases in commodity supply. Commodity price volatility remains substantial and the Group has sizeable exposures to commodity producing and trading businesses.
- Changes in the political environment raise the risk that growth-promoting reforms may become more difficult to implement as well as increasing market uncertainty, volatility and adverse economic conditions. Uncertainty remains over: key economic policies of the US administration, the evolving situation in the Korean peninsula, Brexit (where the details of any agreement on the terms of UK access to the European Union market is unclear), and the impact of several elections in European countries – notably, the Italian election scheduled in early 2018 – which could lead to changes in government and shifts in economic policy. The outcome of political uncertainty in the Spanish region of Catalonia is also unclear. In NZ, the change of government is expected to result in changes in economic policies that could affect the business environment and market conditions. The extent, implementation and outcome of policy changes resulting from these political events, and their impact on global trade, the broader economies of the affected countries and global financial markets, are all uncertain.

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.

Operating and financial review (continued)

The non-capital components of the APRA framework for the supervision of conglomerate groups, including the Group, became effective on 1 July 2017. APRA deferred finalising the capital components of the framework, with implementation not expected prior to 2019.

Implementation of the Basel Committee on Banking Supervision's (BCBS) reforms will continue over the coming years in Australia and the Group's other jurisdictions. APRA has introduced prudential standards for BCBS Basel III requirements in Australia. These reforms increase 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. Other BCBS key changes impacting the Group that APRA is progressing include:

- Updated standard on liquidity, incorporating the net stable funding ratio that will take effect on 1 January 2018. This may impact the funding profiles and associated costs of participants in the Australian Banking industry, and NZ banks owned by Australian parent banks.
- Revised securitisation framework that will take effect from 1 January 2018. This may impact the amount of regulatory capital held industry-wide for securitisation exposures.
- The BCBS' revised market risk framework, which is due to come into effect from 2019 globally. Domestically, APRA has advised the new market risk standard will not take effect before 2021. This may impact trading book capital requirements.
- Consultation on the standardised approach to counterparty credit risk. Requirements will take effect from January 2019 at the earliest. This may impact the amount of regulatory capital held for counterparty credit risk exposures.
- Consultation on a revised Large Exposures framework, with final requirements expected to take effect from 2019. This may impact large exposure limits, measurement and reporting.
- Signalling an intent to implement a minimum leverage ratio requirement for Authorised Deposit-taking Institutions (ADIs) which is not expected prior to 1 January 2018. The NAB leverage ratio of 5.5% at 30 September 2017 is above the current Basel minimum. The minimum leverage ratio requirement is not expected to be a binding constraint on the Group.

In NZ, the Reserve Bank of New Zealand (RBNZ) is currently reviewing the previously implemented Basel III Capital Adequacy Framework. This review may result in a departure from the framework, and lead to potential capital constraints and compromised efficiency of capital structures.

Regulatory changes continue to be made by the BCBS as it focuses on improved consistency and comparability in banks' regulatory capital ratios. 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. The BCBS also released the revised interest rate risk in the banking book framework and is 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 implemented by APRA or by other regulators. This may intersect with measures adopted as a result of the Australian Financial System Inquiry (FSI), which recommended measures supported by the Australian Government, on improving resilience, efficiency and fairness of the banking system. APRA has responsibility for implementing FSI recommendations in relation to strengthening the resilience of the financial system.

The following FSI recommendations have taken effect, or are in consultation:

- From July 2016, APRA commenced raising the risk weight for Australian residential mortgages from approximately 16% to an intended average of 25% for ADIs accredited to use internal models.
- On 19 July 2017, APRA released a paper outlining the amount and timing of capital increases required for ADIs to achieve "unquestionably strong" capital ratios. APRA advised that the major Australian banks, including the Company, are expected to have Common Equity Tier 1 (CET1) capital ratios of at least 10.5% by 1 January 2020. Implementation of this and further recommendations may result in impacts to regulation and legislation, risk weighted assets or capital ratios.
- In March 2017, the Australian Government Treasury consulted on whether the Australian Securities and Investments Commission (ASIC) should be given additional powers on the design and distribution obligations for financial products. This would allow ASIC to temporarily intervene in product design and distribution if it believes there is significant consumer harm.
- On 1 July 2017, the new ASIC Industry Funding Model came into effect, resulting in regulated entities being charged for ASIC's regulatory services.

The Financial Stability Board issued the total loss-absorbing capacity (TLAC) standard in November 2015 for global systemically important banks (G-SIBs). APRA could implement a loss absorbing capacity framework in accordance with emerging international practice. At this stage, APRA has not yet issued guidance on how TLAC might be implemented. This may have implications on the level of capital the Group is required to hold.

The Australian Government Treasury also recently consulted on a number of proposed major regulatory reforms, including:

- The Banking Executive Accountability Regime that is designed to enhance the responsibility and accountability of ADIs and their directors and senior executives.
- Superannuation reform, specifically draft legislation on improving accountability and member outcomes, together with proposed changes to the superannuation prudential framework to lift operational governance practices of APRA-regulated superannuation trustees.
- Draft legislation to extend the powers of APRA to address any crisis affecting the Company. The extension of the powers may increase the risk of regulatory action that imposes losses on the holders of regulatory capital securities.
- The introduction of an Open Banking regime in Australia designed to increase access to banking product and customer data by consumers and third parties.

Other areas of ongoing regulatory change and review include:

- Global reform initiatives including US Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and Over The Counter derivative market reforms.
- The Productivity Commission's inquiries into competition in the Australian financial system and the competitiveness and efficiency of the superannuation industry. Together with the Australian Government Treasury's Open Banking review, these inquiries cover almost the entirety of the banking and financial services sector and any outcomes from them will be considered by the Government as part of its ongoing focus on improving customer outcomes.
- Supervisory actions to reinforce sound residential mortgage lending practices, including restrictions on investor and interest only lending. More broadly, the Australian Competition and Consumer Commission is conducting an inquiry into residential mortgage

Operating and financial review (continued)

product pricing. This may require the Company to explain any changes or proposed changes to fees, charges or interest rates applicable to residential mortgage products.
- Changes to financial benchmarks, payments and privacy laws, accounting and reporting requirements, tax legislation and bank specific tax levies. This includes the major bank levy which became effective from 1 July 2017, and similar levies that Australian State and Territory Governments may introduce.
- Increasing supervision and regulation on anti-bribery and corruption, anti-money laundering, counter-terrorism financing and trade sanctions.
- An ongoing focus on financial advice, data quality and controls, conduct, governance and culture, conflicts of interest and management of life insurance claims.

The RBNZ issued its revised Outsourcing Policy which focuses on banking services provided by parent banks offshore. Implementation of, and compliance with, the final policy may impact the Group's operations.

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 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 competitive position.

There is substantial competition across the markets in which the Group operates. Increasing competition for customers can lead to compression in profit margins or loss of market share. The Group faces competition from established financial services providers as well as new market entrants, including foreign banks and non-bank competitors with lower costs and new operating 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, 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 are, and in the future may continue to be, impacted by these risks, as set out below.

The Group is exposed to credit risk, which may adversely impact its 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 in: banking and trading books, other financial instruments and loans, extension of commitments and guarantees, and transaction settlements.

Major sub-segments within the Group's lending portfolio include residential housing loans, a material component of the Group's total gross loans and acceptances, and commercial real estate loans, the majority of these domiciled across Australia and NZ. Adverse business or economic conditions, including deterioration in property valuations or prices of residential and commercial property, decline in employment markets, political environment volatility, or high levels of household debt in Australia and NZ may result in increased credit risk.

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

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

The NZ dairy market has been under financial pressure due to lower milk solid payouts in 2015/16. While the outlook for milk prices has recently improved, it is expected that some level of financial pressure will continue for a period of time across this sector. The Australian dairy industry has also faced lower milk prices and industry disruption.

The mining, oil and gas industries in Australia, as well as a number of sectors that service them, were impacted by a slowdown in investment and a period of low commodity prices in key segments. This continues to present the risk of an increase in bad and doubtful debts.

Climate change may present risks arising from: extreme weather events that affect property or business operations, effect of new laws and Government policies designed to mitigate climate change, and impacts on certain customer segments as the economy transitions to renewable and low-emission technology. A consequence of these factors includes the risk of the Group and its customers holding stranded assets.

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. This includes legal risk but excludes strategic and reputational risk.

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

An operational risk event may give rise to substantial losses, including financial loss, fines, penalties, personal injuries, reputational damage,

Operating and financial review (continued)

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, climate change, biological hazards or acts of terrorism.

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

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

The Group may be exposed to 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 significantly, be set inappropriately, or not meet legal or regulatory expectations, 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, 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. Significant regulatory change and public scrutiny of the global financial services industry by conduct based regulators, and at times government, is driving increased minimum standards and customer expectations. This has led to a number of international firms facing high profile enforcement actions, including substantial fines, for breaches of laws or regulations. Refer to 'Notes to the Consolidated Financial Statements', *Note 32 Contingent liabilities and credit commitments* on page 106 in the *Financial report* for details on regulatory compliance investigations and reviews, and court proceedings brought by regulators against the Group. The potential outcome of these court proceedings, investigations and reviews remain uncertain at this time, and it is possible that class actions could arise in relation to these matters.

In addition to matters disclosed in the *Financial report* (as referenced above), ASIC is also conducting the following investigations and reviews:
- In January 2017, the Group's superannuation trustee, NULIS Nominees (Australia) Ltd (NULIS), commissioned an independent assurance review in accordance with additional conditions on its financial service licence. As agreed with ASIC, the scope of the review covered NULIS' risk management procedures, processes for implementing product changes, disclosure and reporting to members, and conflicts management procedures. The first phase Interim Review findings and NULIS' responses were submitted to ASIC. The review is ongoing.
- Conduct-related issues, including responsible lending, the consumer credit insurance sales process and seeking further industry action in relation to loan contracts for small businesses under the Unfair Contract Terms regime. ASIC has reviewed lending practices in the home loan sector and commenced legal proceedings in March 2017 against another Australian bank for alleged contraventions of the responsible lending provisions of the National Consumer Credit Protection Act 2009.

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

Disruption of technology systems or breaches of data security may adversely impact the Group's 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 an array of factors including: complexity within the technology environment, a failure of these systems to operate effectively, an inability to restore or recover such systems in acceptable timeframes, failure to keep technology up-to-date, a breach of data security, or other forms of cyber-attack or physical attack. These factors may be wholly or partially beyond the control of the Group. Such events may result in disruption to operations, adverse impact on speed and agility in the delivery of change and innovation, reputation damage, litigation, loss or theft of customer data, or regulatory investigations and penalties. These risks may adversely impact the Group's reputation, and financial performance and position.

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

Operating and financial review (continued)

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

As with other business activities, the Group uses select external providers (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 invests significantly in change across the organisation, including technology, infrastructure and cultural transformation. There is a risk that these programs may not realise some or all of the anticipated benefits. The Group also continues to pursue business process improvement initiatives and invest in technology to achieve its strategic objectives, meet changing customer expectations and respond to competitive pressures. These process changes may increase operational 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.

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

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

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

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

Refer to 'Notes to the Consolidated Financial Statements', *Note 32 Contingent liabilities and credit commitments* on page 106 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 requirements, achieve 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 may:

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

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

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

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

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of 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 financial performance and position.

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

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

Credit rating agencies conduct ongoing review activities which can result in changes to credit rating settings and outlooks for the Group, or for sovereign governments in countries in which the Group conducts business. Credit ratings may be affected by operational and market factors, and changes in the rating methodologies used by the agencies.

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

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

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

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

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

The Group's ownership structure includes investment in overseas subsidiaries and associates and exposures from known foreign currency transactions (such as repatriation of capital and dividends from off-shore subsidiaries). The Group also conducts business outside of Australia and transacts with customers, banks and other counterparties in a number of different currencies. The Group's businesses may therefore be affected by a change in currency exchange rates, 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. Together with ongoing political and media scrutiny of the Australian banking industry, reputational damage has the potential to lead to further government intervention into the sector. For example, the Federal Opposition (Labor) has committed to establish a Royal Commission (a formal public inquiry that can only be instigated by the executive branch of the Australian Government and is directed by a terms of reference set by the Government) into the banking and financial services sector. Recommendations from this inquiry, if legislated, could affect many of the Group's interests.

A risk event, such as a compliance breach, fraud or an operational or technology failure, may expose the Group to losses as a result of litigation, fines and penalties, remediation costs or loss of key personnel, and potentially impact the Company's share price. In addition, the event may adversely affect the perceptions of the Group held by the public, shareholders, investors, customers, regulators or ratings agencies. 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.

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. This model 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.

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 (or at all) to such change. In addition, any one or more of the Group's strategic initiatives may prove to be too difficult or costly to execute effectively.

The Group regularly considers a range of corporate opportunities including acquisitions, divestments and joint ventures. Opportunities that are pursued may change the Group's risk profile and capital structure, and inherently come with transaction risks including over-valuation of an acquisition (or under-valuation of a divestment), and exposure to reputational and financial risks.

Operating and financial review (continued)

Risks may arise through the integration or separation of a business, including failure to realise expected synergies, disruption to operations, diversion of management resources or higher than expected costs. In addition, the Group may have ongoing exposures to divested businesses, including through the provision of continued services and infrastructure (such as the transitional services being provided to CYBG PLC (CYBG) and MLC Limited) or the retention of liabilities, including through warranties and indemnities in sale agreements such as the Conduct Indemnity Deed with CYBG. Refer to 'Notes to the Consolidated Financial Statements', *Note 32 Contingent liabilities and credit commitments* on page 106 in the *Financial report* under the heading *UK conduct issues and the Conduct Indemnity Deed*.

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

In addition to the risks described above, a number of specific risks exist in connection with the MLC life insurance transaction.

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

The Company agreed to take certain actions to establish MLC Limited as a standalone entity, including data migration and the development of technology systems. As this work has yet to be completed, there is a risk that implementation costs may ultimately prove higher than anticipated.

Directors' information

Directors

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

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

Dr Kenneth R Henry AC, BComm (Hons), PhD, DB h.c, FASSA, FAIIA
Age**:** 59

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

Independent**:** Yes

Skills & Experience**:** Over 30 years of experience in economics, policy and regulation, governance and leadership. Dr Henry served as the Secretary of the Department of the Treasury from 2001 to 2011. From June 2011 until November 2012, he was special 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. He is Co-Chair of NAB's Indigenous Advisory Group.

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

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

Mr Andrew G Thorburn BCom, MBA
Age: 52

Term of office: Director since August 2014.

Independent: No

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

Mr Thorburn is Chairman of Australian Bankers' Association Inc. His term as Chairman ends in December 2017.

Mr David H Armstrong BBus**,** FCA, MAICD
Age**:** 59

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

Independent**:** Yes

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

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

Mr Philip W Chronican BCom (Hons), MBA (Dist), GAICD, SF Fin
Age**:** 61

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

Independent: Yes

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

Mr Chronican's other directorships include NSW Treasury Corporation (TCorp) (Chairman), JDRF Australia and Banking + Finance Oath.

Mr Peeyush K Gupta BA, MBA, AMP (Harvard), FAICD
Age**:** 58

Term of office**:** Director since November 2014. Member of the Board's Risk, Remuneration and Nomination & Governance Committees. Director of certain NAB Wealth and BNZ subsidiaries.

Independent: Yes

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

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

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

Directors' information (continued)

Ms Anne J Loveridge BA (Hons), FCA, GAICD
Age: 56

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

Independent: Yes

Skills & Experience**:** Over 30 years of experience in the Financial Services practice at PwC, with a range of clients in banking, property, private equity and wealth management sectors. Ms Loveridge has extensive knowledge of financial and regulatory reporting, risk management, controls and compliance frameworks. While at PwC, she held various senior leadership positions in the firm, including Deputy Chairman of PwC Australia, managing financial results, risk and quality matters, people and partner development, remuneration and diversity initiatives.

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

Ms Loveridge's other directorships and interests include The Bell Shakespeare Company Limited (Chairman) and International Federation of Accountants Nomination Committee.

Ms Geraldine C McBride BSc
Age**:** 56

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

Independent**:** Yes

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

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

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

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

Age**:** 62

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

Independent**:** Yes

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

Directorships of listed entities:
Genesis Energy Limited (since June 2014)
Former director, Ryman Healthcare Limited (from September 2014 to July 2017)

Mr McKay's other directorships and interests include Eden Park Trust (Chairman) and IAG New Zealand Limited and its parent company.

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

Age**:** 63

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

Independent: Yes

Skills & Experience**:** Over 20 years of experience in roles within the banking, tourism and transport industries in Australia and New Zealand, together with significant experience in government and public service. Ms Sherry is currently Executive Chairman of Carnival Australia, the largest cruise ship operator in Australasia, which she joined in 2007. Prior to joining Carnival Australia, she had 12 years' experience with Westpac where she held executive roles including CEO, Westpac New Zealand, CEO, Bank of Melbourne and Group Executive, People & Performance. Until recently, she was on the supervisory board of ING Group (Amsterdam) and was a director on the board of ING Direct (Australia). She was made an Officer of the Order of Australia in 2004.

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

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

Mr Anthony K T Yuen B.Soc.Scs

Age: 67

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

Independent: Yes

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

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

Report of the Directors

Directors' information (continued)

Board Changes

Ms Sherry was appointed to the Board in November 2017.

Ms Segal and Mr Gilbert retired from the Board in December 2016.

Ms Jillian S Segal AM, BA, LLB, LLM (Harvard), FAICD
Age: **62**

Term of office: Director from September 2004 to December 2016.

Independent: Yes

Skills & Experience: Over 20 years of experience as a lawyer and regulator. From 1997 to 2002, Ms Segal was a commissioner of ASIC and Deputy Chairman of ASIC from 2000 to 2002. She 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.

Directorships of listed entities:
Former director, ASX Limited (from July 2003 to September 2015)

Mr Daniel T Gilbert AM, LLB
Age: 65

Term of office: Director from September 2004 to December 2016.

Independent: Yes

Skills & Experience: Over 40 years of experience in commercial law. Mr Gilbert is Managing Partner of corporate law firm Gilbert + Tobin, which he co-founded in 1988.

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), 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.

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

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.

Directors' information (continued)

Directors attendances at meetings

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

	Board		Audit Committee		Risk Committee		Nomination & Governance Committee		Remuneration Committee		Directors' meetings of controlled Entities [(1)]		Additional meetings [(2)]
Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**Attended**
Ken Henry	14	14	3	3	3	3	4*	4	13	13	3	3	10
David Armstrong	14	14	12*	12	14*	14	-	-	-	-	3	3	9
Philip Chronican	14	14	4	4	14*	14	-	-	13*	13	21	21	16
Peeyush Gupta	14	14	4	4	14*	14	4*	4	13*	13	41	41	5
Geraldine McBride	14	14	11*	11	3	3	-	-	-	-	3	3	-
Doug McKay	14	14	12*	12	7	7	4*	4	3	3	33	35	5
Anne Loveridge	14	14	6**	6	3	3	4*	4	10*	10	3	3	2
Andrew Thorburn	14	14	3	3	12	12	-	-	8	8	3	3	2
Anthony Yuen	14	14	12*	12	14*	14	-	-	2	2	3	3	5
Daniel Gilbert [(3)]	6	6	2	2	2	2	-	-	5*	5	2	2	1
Jillian Segal [(3)]	6	6	2	2	4	4	-	-	5*	5	2	2	1

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

***Indicates the director was a member of the Committee during the period but, as at 30 September 2017, is no longer a member.*

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

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

(3) *Mr Gilbert and Ms Segal retired effective 16 December 2016.*

For more information on Board Committee memberships, please refer to NAB's 2017 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance.

Directors' information (continued)

Directors' and executives' interests

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

	National Income Securities	Performance rights over NAB fully paid ordinary shares[(1)]	NAB fully paid ordinary shares[(2)]
	No.	No.	No.
Directors			
KR Henry (Chairman)	-	-	10,360
DH Armstrong	-	-	10,480
PW Chronican	982	-	31,000
PK Gupta	-	-	7,480
AJ Loveridge	-	-	10,000
GC McBride	-	-	5,960
DA McKay	-	-	10,000
AC Sherry	-	-	7,831
AG Thorburn	-	881,674	165,124
AKT Yuen	-	-	12,464
Senior executives			
MB Baird	-	-	2,000
AJ Cahill	-	233,992	32,957
SJ Cook	-	-	2,000
AD Gall	-	194,317	93,269
AP Hagger	-	413,918	27,976
AJ Healy	-	260,363	44,642
GA Lennon	-	127,316	53,765
A Mentis	-	235,118	50,264
LN Murphy	-	54,917	34,072
PF Wright	-	-	2,000

(1) *Further details of performance rights are set out in Note 39 Shares and performance rights in the Financial report and Section 6.8 of the Remuneration report.*
(2) *Information on shareholdings is disclosed in Section 6.9 of the Remuneration report for the Group CEO and senior executives and in Section 7.4 of the Remuneration report for non-executive directors.*

The directors from time-to-time invest in various debentures, registered schemes and securities offered by NAB and certain subsidiaries of NAB. The level of interests held directly and indirectly by a director as at 30 September 2017 were:

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

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

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 2017 under the performance rights plan, including the number of performance rights exercised during 2017, are shown in the following table:

Exercise period [(1)]	Number held at 30 September 2017	Number exercised from 1 October 2016 to 30 September 2017	Number granted since 1 October 2016
Performance rights [(2)]			
4 June 2015 - 4 December 2016	-	-	-
22 May 2016 - 22 November 2016	-	1,674	-
4 June 2016 - 4 December 2016	-	-	-
4 November 2016 - 4 May 2017	-	3,374	-
18 November 2016 - 18 February 2017	-	121,514	-
17 December 2016 - 15 March 2017	-	109,566	-
19 December 2016 - 19 June 2018	1,397,066	-	-
22 May 2017 - 22 November 2017	-	8,171	-
17 June 2017 - 15 September 2017	-	15,016	-
19 June 2017 - 19 December 2017	-	-	-
19 June 2017 - 19 December 2018	-	-	-
16 November 2017 - 16 February 2018	131,743	-	134,310
18 November 2017 - 18 February 2018	124,905	-	-
20 December 2017 - 15 March 2018	24,579	-	-
20 December 2017 - 20 June 2019	613,634	-	-
20 June 2018 - 20 December 2019	60,204	-	-
16 November 2018 - 16 February 2019	112,606	-	112,606
20 December 2018 - 15 March 2019	29,190	-	36,488
21 December 2018 - 15 March 2020	919,144	-	-
21 June 2019 - 15 September 2020	67,589	-	-
21 December 2019 - 15 March 2020	858,902	-	-
20 December 2020 - 15 March 2021	548,106	-	548,106

(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 4,881,151 performance rights which are exercisable, or may become exercisable in the future under the performance rights plan. There are currently 142 holders of performance rights.

NAB has issued no fully paid ordinary shares since 30 September 2017 to the date of this report, as a result of performance rights granted being exercised for no consideration.

For the period 1 October 2016 to the date of this report, 1,674 performance rights expired as they were not exercised before their expiry date and 612,851 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.

Other matters

Litigation and disputes

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 *Note 32 Contingent liabilities and credit commitments* on page 106 in the *Financial report* for details in relation to the Group's material legal proceedings and contingent liabilities.

Future Developments

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

Proceedings on behalf of NAB

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

Events subsequent to reporting date

On 27 October 2017, the Group announced it had agreed a settlement with the Australian Securities and Investments Commission (ASIC) of the Bank Bill Swap Rate (BBSW) legal action. As part of the settlement the Group has agreed to a $10 million penalty, and to pay ASIC's costs of $20 million. The Group will also make a donation of $20 million to a financial consumer protection fund nominated by ASIC. The financial impact of this settlement has been reflected in the Group's results for the 2017 financial year.

On 2 November 2017, the Group announced an acceleration of its strategic agenda to enhance the customer experience and simplify the bank. A restructuring provision of between $500 million and $800 million is expected to be raised in the Group's interim financial report for the first half of the 2018 *Financial year*.

Other than the matters noted above, there are no other items, transactions or events of a material or unusual nature that have arisen in the interval between 30 September 2017 to the date of this report that, in the opinion of the directors, have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

Integrity of reporting

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

Further details on the role of the Board and its committees can be found in NAB's 2017 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance.

Environmental and social regulation, risk and opportunities

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

The operations of the Group are subject to the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER Act) as part of the legislative response to climate change in Australia. While this legislation is not particular to the Group or significant in its impact, the Group complied with its requirements. The NGER Act requires the Group to report on the period from 1 July to 30 June (the environmental reporting year). The Group's Australian vehicle fleet and building related net energy use reported under the NGER Act for the 2017 environmental reporting year was 618,969 gigajoules (GJ) (2016: 611,625 GJ), which is approximately 82% 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 114,048 tCO_2-e (2016: 128,436 tCO_2-e).

During the 2017 environmental reporting year, the Group's total GHG emissions (Scope 1, 2 and 3 [(1)]), after accounting for use of certified renewable energy in the UK and generated renewable energy in Australia, were 185,344 tCO_2-e (2016: 218,918 tCO_2-e). 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 2017, the Group identified 1230 energy efficiency and 15 renewable energy opportunities in Australia alone. Implemented initiatives are estimated to provide more than 352,907 GJ (2016: 345,675 GJ) of ongoing annual energy savings. This equated to avoided costs of over $19.5 million in the 2017 environmental reporting year (2016: $16.7 million in avoided costs). A further 16 energy efficiency and 3 renewable energy opportunities are in progress or approved to proceed.

The Group's main Melbourne-based data centre is subject to the reporting requirements of the *National Environment Protection Measure* (National Pollutant Inventory) (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 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 CRC EE Scheme for the 2016/2017 compliance year (year ended 31 March 2017) totalled 0 tCO_2-e (2016: 0 tCO_2-e), because the Group's UK operations no longer have any reportable energy supplies (the Group occupies leased offices where the landlord pays the energy bills and includes a recharge in the lease outgoings). The Group's regulatory return was filed in July 2017 as required by the CRC EE Scheme Order 2010. This year, the Group was not required to purchase and surrender Carbon Reduction Commitment Allowances.

In 2014, the Group's UK-based operations became subject to the Energy Savings Opportunities Scheme (ESOS), which was introduced by the *ESOS Regulations 2014* which came into force in July 2014. The ESOS requires mandatory energy assessments (audits) of organisations' buildings and transport to be conducted every four years. 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. The Group has no ESOS requirements to meet in 2017.

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

Other matters (continued)

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

Climate Change

The Group recognises that climate change is a significant risk and a major challenge for the global economy and society. The Group supports the transition to a low carbon economy consistent with the global agreement reached in Paris to limit global warming to less than 2 degrees above pre-industrial levels (the Paris Agreement).

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

Governance

The Board retains ultimate oversight for Environmental, Social and Governance risks and issues (ESG Risks), including climate change, which is one of three designated focus areas in the Group's Environmental Agenda – in addition to natural value and resource scarcity. The Board receives regular reports on a range of climate-change related issues including progress against the Group's climate change strategy, commitments and initiatives, environmental operational performance, carbon neutral status, and concerns from stakeholders. The Board also receives updates on regulatory change and greenhouse and energy reporting returns that require noting by the Board before submission to regulators.

Risk Management

ESG Risks, including climate change, are identified, measured, monitored, reported and overseen in accordance with the Group's Risk Management Framework (as described in the Group's Risk Management Strategy). The Group Regulatory, Compliance and Operational Risk Committee (GRCORC) has oversight of these risks and the Group's environmental performance and Environmental Agenda, including climate change. Matters are escalated to the Group Risk Return Management Committee, Board Committees and Board as required. In 2016, the Group formed a Climate Change Working Group (CCWG), with management representatives from across the Group, to review the key risks and opportunities facing the Group and its customers arising from the Paris Agreement. The findings of this working group are reported through to management, executives and the Board.

In the 2017 financial year, the CCWG made recommendations that are being integrated into risk appetite and activities and business strategy of the Group. The Group used the Bank of England's categories of physical, transition and liability risk in its internal climate change risk assessment process to review the risks faced by the Group and its customers as a result of climate change. Key risk actions arising from the CCWG's work were to:

- participate in a UN Environmental Program Finance Initiative (UNEP FI) pilot project with other UNEP FI member banks to test recommendations made by the Financial Stability Board's Taskforce on Climate-related Financial Disclosures. This project aims to develop scenarios and stress test participating bank loan books and will help the Group meet the commitment it made in 2014 to expand and improve the Group's carbon-related disclosure; and
- undertake a phased review of the Group's risk appetite for carbon intensive, low carbon and climate sensitive sectors.

Strategy

Current and future business opportunities, including those related to climate change (for example financing clean technology), are identified and prioritised through strategic planning processes, both at a Group and business line level. During the 2017 financial year, the CCWG refreshed the Group's climate change strategy and considered further opportunities to reduce the Group's own carbon footprint and assist its customers through the low carbon transition and help them to adapt and build resilience to its physical impacts. The Group anticipates the global low carbon transition will see structural changes in energy markets with fossil fuel-based energy use materially declining over time, and increased use of renewable energy. This in turn will be reflected in the make-up of the Group's loan book and investment portfolio.

In addition to the five climate change commitments the Group made prior to the 2015 Paris Climate Conference (COP21), the CCWG's assessment of growing climate change related opportunities has led to the Group committing to:

- increase its current environmental financing commitment from $18 billion by 2022 to $55 billion by 2025 (between 1 October 2015 – 30 September 2025) to assist the low carbon transition. This includes:
  - $20 billion to support green infrastructure, capital markets and asset finance (in the 2017 financial year this reached $4.9 billion); and
  - $35 billion in new mortgage lending flow for 6 Star residential housing in Australia (in the 2017 financial year this reached $8.52 billion);
- increase the Group's sourcing of Australian electricity from renewable energy from 10% by 2018, to 50% by 2025; and
- play an active role in addressing climate change through seeking to innovate across the Group's key sectors and markets and supporting low carbon opportunities for the Group's customers.

These commitments have been integrated into the Group's business strategy. The Group will use its experience in clean energy financing and natural value to provide innovative, low-carbon solutions for customers across all of the Group's key sectors and markets. Further details on all of the Group's climate change commitments can be found on the Group's website at www.nab.com.au/about-us/corporate-responsibility/environment/climate-change.

Metrics and targets

In addition to the Group's environmental financing commitment, the Group is monitoring exposure to both carbon intensive and low carbon sectors. Some of this data is reported to investors in half year and full year results presentations, as well as in the Group's annual *Sustainability Report*. With respect to the Group's own operations, the Group continues to:

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

Other matters (continued)

- report on progress against its science-based emissions reduction target (the Group achieved a 7% reduction in emissions in the 2017 environmental reporting year);
- install solar panels on its buildings (in the 2017 environmental reporting year the Group reached a total of 677 kW of installed capacity across 34 facilities); and
- maintain its carbon neutral status.

Further information about the Group's Environmental Agenda, climate change strategy and commitments, greenhouse reduction and resource efficiency targets and management approach is outlined in the Group's 2017 *Annual Review* and 2017 *Sustainability Report* available online at www.nab.com.au/annualreports.

Modern Slavery

In October 2015, the UK Government's *Modern Slavery Act 2015* came into effect. The Group has prepared a *Modern Slavery Act* statement which sets out actions taken by the Group during the 2017 financial year to ensure that its business operations, and its supply chain, are free from slavery and human trafficking. It is available online at www.nab.com.au/modernslaverystatement in accordance with the 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 2017 financial 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 2017. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2017 are as follows:

	Group 2017 $'000
Audit related services	
Comfort letters	567
Regulatory	4,942
Non-regulatory	660
Total audit related services	6,169
All other services	
Tax framework and policy reviews	1,119
Project assurance and due diligence	577
Cyber security and risk assessments	191
Other services	191
Total all other services	2,078
Total non-audit services	**8,247**

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 2017 amount to $22.7 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 2017 total $3.5 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 2017 by Ernst & Young is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). The directors are satisfied because the Board Audit Committee or its delegate has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded 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 2017 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 2017 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.

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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 2017, 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

Andrew Price
Partner
Melbourne

14 November 2017

Report of the Directors

Remuneration report

Letter from the Remuneration Committee Chairman

Dear Shareholder,

On behalf of the Remuneration Committee (the Committee), I thank you for reading NAB's 2017 Remuneration report. We understand these reports are a challenging read, and this year have tried to simplify how we explain our executive remuneration framework and practices.

At the 2016 Annual General Meeting, our Board Chairman committed to a review of our executive remuneration framework and practices. The Board is committed to responsible remuneration practices that appropriately balance securing the right talent, rewarding in line with execution of our strategy and creating incremental, sustainable shareholder value. The review found that there is good alignment between our framework and our goals although there is opportunity to work on the simplicity and transparency of the framework. While some changes have been implemented, given the announcement of the Banking Executive Accountability Regime (BEAR), the Committee decided not to make significant changes in 2018 without having final clarity on BEAR. The Committee will build upon the extensive review work completed during 2017 to consider further fit for purpose changes to our remuneration arrangements for 2019 onwards.

Changes made this year to improve transparency and simplicity as well as address some of the concerns regarding quantum of maximum potential remuneration while remaining market competitive, include:

- Determining the number of deferred Short-Term Incentive (STI) and Long-Term Incentive (LTI) performance rights in early October to include in this report. Bringing forward the valuation date for these awards to the end of September means we can disclose the basis of the fair and face value of the equity awards for the Group Chief Executive Officer (CEO) and other senior executives in this Remuneration report. Shareholders can vote on the Remuneration report and the Group CEO's equity awards with a clear understanding of the value of those awards;
- Changing the allocation methodology for LTI from fair to face value for the Group CEO resulting in a reduction of potential earnings and increasing simplicity. The LTI allocation for the other senior executives remains based on fair value methodology until the BEAR legislation is enacted; and
- Capping the STI maximum potential for the Group CEO at 150% versus 175% of fixed remuneration for 2018, further reducing potential earnings.

Throughout 2017, the Committee has also focused on:

Executive Performance

The Committee actively monitors the performance of the executive leadership team throughout the year. These executives are responsible for setting the culture for the organisation and are expected to live and demonstrate NAB's values. In a challenging, highly competitive and politicised environment with increasing regulatory requirements, the leadership team has advanced NAB's strategic agenda during 2017. As a result, senior executives' performance outcomes ranged from achieved to highly achieved. The STI pool was funded at 90% based on the Board's consideration of achievement of financial goals, quality of earnings and a number of qualitative outcomes, including customer advocacy, risk management and regulatory compliance. Additionally, the 2012 LTI was tested in December 2016. The four year relative Total Shareholder Return performance hurdles for this award were not met, providing no vesting of LTI for executives in 2017.

We also undertook global searches for the best talent to execute our strategy. We have provided market competitive remuneration to attract the right individuals for three significant senior executive leadership team appointments. Our annual review of executive leadership team remuneration found that we continue to provide market competitive remuneration for all executive leadership team roles.

Incentive Changes

NAB has refined its Group incentive plan principles aimed at improving NAB's culture, better protecting our customers and consistent with the Australian Bankers' Association Retail Banking Remuneration Review (the Review) recommendations. NAB continues to lead the industry reforms and has committed to fully implement the Review recommendations by 2020. The Committee is monitoring NAB's implementation of the Review recommendations, which for 2018 include:

- Retail banking managers, assistant managers and direct consumer team leaders have moved to a more customer-outcome focused incentive plan and will no longer receive at-risk remuneration based on a sales incentive plan. Instead they participate in the Group STI Plan, significantly reducing the link between sales and remuneration.
- Scorecards for retail employees have been refined to ensure all balanced scorecard measures are customer-centric, product neutral and contain both quantitative and qualitative measures to drive improved quantity and quality of customer conversations, with no more than 33% weighted to financial measures.

Consequence Management

The Committee regularly monitors consequence management outcomes to ensure management is addressing poor conduct and risk management issues and taking appropriate action. In 2017, there were 1,613 Code of Conduct outcomes, managed by the Workplace Relations team, 307 resulted in employees exiting the business, and 1,306 cases resulted in coaching or other remedial actions, including loss of performance-based compensation. The value of equity forfeitures, as a result of consequence management during 2017, was $1.3 million.

As we strive to continually improve this report for our customers, our shareholders and our employees, I hope you find this report to be simpler, more informative and more transparent. We welcome your feedback.

Yours sincerely,

Anne Loveridge

Anne Loveridge
Remuneration Committee Chairman

Remuneration report (continued)

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Report of the Directors

Remuneration report (continued)

Section 1 - Executive summary

1.1. Linking business performance to remuneration outcomes

Our purpose	**Back the bold who move Australia forward**
Our vision	**To be Australia and New Zealand's most respected bank**
How do we do this?	**Through our strategy to:** - Turn our cusomers into advocates - Create a high performing culture through a team of engaged people with aligned values - Generate attractive returns - Do the right thing by taking the right risk, with the right controls for the right return

How did we perform?

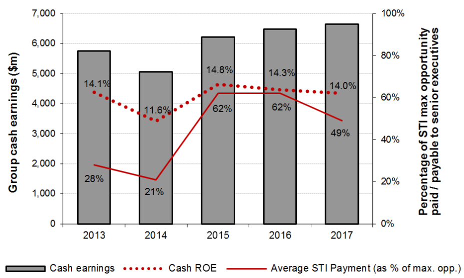
-14 priority segments net promoter score [(1)] **1 point increase from August 2016 to August 2017, ranked #2 amongst major Australian banks**	**59%** employee engagement score [(2)] **compared to top quartile global benchmark of 67%**	**20.1%** total shareholder return (TSR) **ranked #1 amongst major Australian banks**
14.0% cash return on equity (cash ROE) [(3)] [(4)] **30 basis points decrease from 2016**	**$6.642bn** cash earnings [(3)] [(4)] **2.5% increase from 2016**	**14.7%** cash return on total allocated equity (ROTAE) **exceeded plan**

Risk management

- Improved overall performance against the Board approved risk appetite through sustained progress on risk management priorities and remediation of risk and compliance issues
- Identified ongoing need to relentlessly raise standards across the Group to meet community and regulator expectations

What did this deliver to senior executives?

- Group STI pool formed at 90% based on the Board's consideration of achievement of financial goals, quality of earnings and qualitative outcomes
- The Group CEO's annual incentive outcome was 49% of maximum STI opportunity (2016: 69%)
- For the senior executive team (excluding the Group CEO) the annual incentive outcome on average was 49% of maximum STI opportunity (2016: average 62%)
- The 2012 LTI tested in 2017, did not vest - delivering no value to senior executives
- The Group CEO's 2017 realised remuneration was $4.1m (2016: $4.1m)
- For the other senior executives, average realised remuneration for 2017 was $1.8m (2016: average $1.7m)



Other Outcomes

- No increases to fixed remuneration for the Group CEO and senior executives as a result of the 2017 annual review. After the review, a remuneration increase has been approved by the Board for the recently announced Chief Customer Officer - Business & Private Banking appointment.
- Group CEO LTI allocation methodology changed from fair value to face value for 2017 grant.
- Reduction in the STI maximum opportunity for the Group CEO from 175% to 150% of fixed remuneration from 2018.
- No increases to non-executive director Board or Committee fees.

(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. Priority segments Net Promoter Score (NPS) is a simple average of the NPS scores of four priority segments: NAB defined Home Owners and Investors, as well as Small Business ($0.1m-<$5m) and Medium Business ($5m-< $50m). The Priority segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research as at 31 August 2017. Group CEO and senior executive NPS 2017 targets and performance were measured over the period August 2016 to August 2017.*

(2) *2017 Employee Engagement Survey conducted by Aon Hewitt. The engagement score indicates the percentage of employees at NAB that are strong advocates (SAY), demonstrate a commitment to NAB (STAY) and exerts discretionary effort (STRIVE).*

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

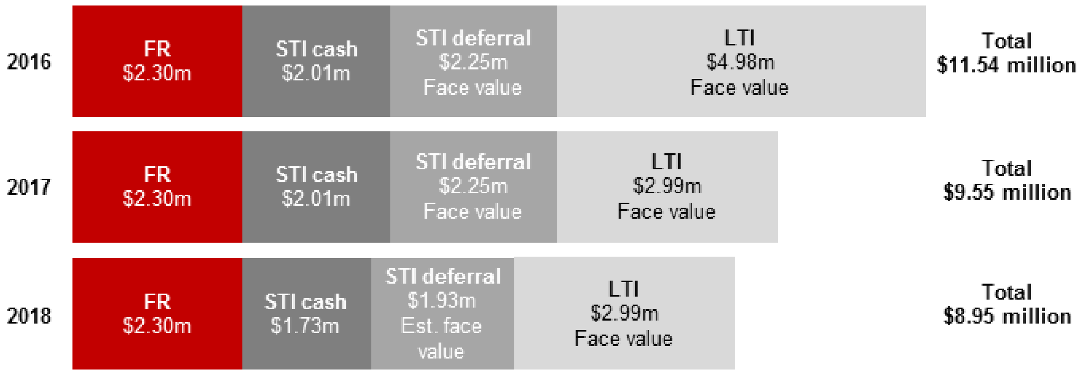
(4) *The Glossary of the Financial report contains a definition of cash earnings and Note 6 - Earnings per share in the Financial report details the calculation of basic earnings per share. Refer to the Financial report for details of statutory net profit attributable to owners of NAB, and to Note 2 Segment information in the Financial report for a reconciliation between cash earnings and statutory net profit attributable to owners of NAB.*

Remuneration report (continued)

1.2. Overview of changes to the executive remuneration framework

During 2017, the Board undertook a critical review of the Group's executive remuneration framework, assessing the structure against its objectives of attracting and retaining high performers, aligning remuneration with delivery of NAB's strategy, and encouraging sustainable long-term performance. As part of this process, the Committee engaged with various stakeholders, including shareholders and proxy advisers. Following these consultations, the Board identified several key areas for improvement in terms of transparency and simplicity and has approved a number of changes:

Our changes	Our approach	When
Group CEO's maximum remuneration opportunity reduced	The Board has reviewed the Group CEO's remuneration during 2017 and determined: **Fixed Remuneration (FR):** No change. **STI:** Reduction of the STI maximum opportunity from 175% to 150% of FR from 2018. Continue allocation on a fair value methodology. **LTI:** Face value allocation (using a 5 day weighted average share price) for LTI based on a maximum grant value of 130% of FR. A dividend equivalent payment [(1)] to be provided on any vested LTI. The Group CEO's maximum potential opportunity will be reduced by an estimated total of $2.59 million over the next two years, (excluding any dividend equivalent payment on vested LTI). The STI and LTI changes reduce the Group CEO's maximum opportunity while ensuring that overall remuneration remains fair and market competitive. **Maximum potential opportunity** [(2)]	2017/2018



Move to face value for allocating LTI performance rights to the Group CEO	The Group CEO's LTI grant for 2017 will use face value rather than fair value to determine the number of performance rights. Details of the LTI grant and the number of performance rights are provided in the 2017 Notice of Meeting and this report (see **Section 6.7**). The maximum face value of the Group CEO's LTI has been set at 130% of fixed remuneration ($2.99 million). If any portion of the award vests, the Group CEO will also receive a dividend equivalent payment[(1)] on any vested portion of the award. Including a dividend equivalent payment strengthens alignment of the CEO's remuneration with shareholder experience over the term of the grant. For other senior executives a fair value allocation methodology will be used, subject to the same maximum limit applied in 2016 to the number of LTI performance rights granted (see **Section 6.2**).	2017
Improved transparency of STI and LTI value	The number of STI and LTI performance rights for senior executives has been determined in early October 2017 and has been included in this report (see **Section 6.7**). For the Group CEO the number of STI and LTI performance rights and information on how they have been calculated has been included in the 2017 Notice of Meeting and this report (see **Section 6.7**).	2017
Improved transparency on performance outcomes	More detail has been included on senior executives 2017 performance outcomes in this report (see **Section 4.3(b)**).	2017

(1) A cash amount equivalent to the gross value of any dividends (including payment for the value of imputation credits which applied to the dividends) which would have been paid to the Group CEO if he had held a number of shares equivalent to any LTI performance rights that may vest, during the period 1 October 2017 to the end of the LTI restriction period (December 2021). The dividend equivalent payment may be adjusted for any bonus and rights issues, aggregations and reconstructions in relation to NAB shares during the period from 1 October 2017 to the end of the LTI restriction period.

(2) All components of the Group CEO's maximum potential earnings is shown on a face value basis for comparison purposes. The amounts have been calculated as:
a) Fixed remuneration is annualised salary and superannuation.
b) STI cash is 50% of the maximum STI opportunity of 175% (2018: 150%) of fixed remuneration.
c) The STI deferral amounts are 50% of the maximum STI opportunity of 175% (2018: 150%) of fixed remuneration converted to face value using the grant date WASP for 2016 and 2017 allocation. Note: The 2017 grant date WASP has been used for the 2018 STI deferral calculation. The fair value for allocation purposes was 2016 and 2017: $2.01m, 2018: $1.73m.
d) The 2016 LTI allocation fair value was $2.99m. The amount shown is the face value of the award at grant date, after application of the maximum WASP discount policy (see Section 6.2).

Remuneration report (continued)

1.3. Realised remuneration

The following table is a voluntary non-statutory disclosure that shows the realised remuneration senior executives received (or were entitled to receive) during 2017 while they were senior executives. The amounts shown include fixed remuneration, cash STI to be paid under the 2017 STI, the previous years' deferred STI which vested, and other equity awards that vested during the year. The value of equity awards is calculated using the closing share price of NAB shares on the vesting date. Not all amounts have been prepared in accordance with accounting standards and this information differs to the statutory remuneration table (**Section 6.1**) which shows the expense for vested and unvested awards in accordance with accounting standards.

Name	Fixed remuneration[(1)] $	Cash STI[(2)] $	Deferred STI vested during year[(3)] $	Equity related amounts during year[(4)] $	Other Remuneration $	Total remuneration realised during year $
Executive director						
AG Thorburn	2,287,372	977,500	798,872	798	-	4,064,542
Other senior executives						
MB Baird (for part year)	558,239	227,754	-	-	-	785,993
AJ Cahill	1,237,316	510,000	392,871	36,398	-	2,176,585
SJ Cook (for part year)	394,400	92,779	-	-	-	487,179
AD Gall	1,509,601	331,500	254,877	-	-	2,095,978
AP Hagger	1,218,999	480,000	489,209	633,897	-	2,822,105
AJ Healy	1,001,052	582,075	337,925	970	-	1,922,022
GA Lennon	1,022,299	425,000	251,894	13,750	-	1,712,943
A Mentis	1,193,388	660,000	369,691	36,398	-	2,259,477
LN Murphy	943,567	340,000	-	357,293	-	1,640,860
PF Wright (for part year)[(5)]	876,777	552,500	-	-	1,130,533	2,559,810
Former senior executives						
CA Carver (for part year)	373,796	472,555	-	1,052,623	-	1,898,974
MR Lawrance (for part year)	335,985	235,002	230,520	21,076	-	822,583

(1) Fixed remuneration includes cash salary, cash value of non-monetary benefits and superannuation consistent with the statutory remuneration table in Section 6.1.

(2) The cash component of the STI received in respect of 2017 is scheduled to be paid on 15 November 2017 in Australia and 30 November 2017 in NZ. The amount reflects 50% of the STI to be provided to eligible current senior executives and the Group CEO. The amount reflects 75% of the STI to be provided to eligible former senior executives. The remaining portion of the STI for 2017 is deferred.

(3) Deferred STI amounts from the 2014 Tranche 2 and 2015 Tranche 1 STI program fully vested in December 2016 and November 2016 respectively.

(4) Equity related amounts provided to senior executives during 2017 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 during 2017. The amounts shown for Ms Murphy and Ms Carver include commencement shares, and for Mr Hagger includes retention shares that vested during the year. No LTI vested during 2017. Dividends received by senior executives during 2017 for any unvested share awards are also included. The amount is calculated for the 2016 final dividend of 99 cents (record date of 9 November 2016) and the 2017 interim dividend of 99 cents (record date of 18 May 2017). Both dividends were fully franked.

(5) To compensate for awards from his prior employer which were forfeited as a result of joining NAB, Mr Wright received a commencement award of US$605,950 (A$801,627) paid on commencement in May 2017 and a second instalment of US$260,000 (A$328,906) paid in September 2017. Full details of Mr Wright's commencement award are provided in Section 6.4.

Remuneration report (continued)

Section 2 - Key Management Personnel

(a) Key Management Personnel in 2017

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 2017 were:

Non-executive directors
Chairman
Kenneth R Henry
David H Armstrong
Philip W Chronican
Peeyush K Gupta
Anne J Loveridge
Geraldine C McBride
Douglas A McKay
Anthony KT Yuen
Daniel T Gilbert (retired 16 December 2016)
Jillian S Segal (retired 16 December 2016)

Senior executives
Executive Director and Group Chief Executive Officer (Group CEO)
Andrew G Thorburn
Chief Customer Officer - Corporate and Institutional Banking
Cathryn A Carver (acting to 20 April 2017)
Michael B Baird (from 21 April 2017)
Chief Operating Officer
Antony J Cahill
Chief Legal and Commercial Counsel
Sharon J Cook (from 18 April 2017)
Chief Risk Officer
A David Gall
Chief Customer Officer - Consumer Banking and Wealth
Andrew P Hagger
Chief Executive Officer Bank of New Zealand
Anthony J Healy
Chief Financial Officer
Gary A Lennon
Chief Customer Officer - Business and Private Banking
Angela Mentis
Chief People Officer
Lorraine N Murphy
Chief Technology and Operations Officer
Matthew R Lawrance (acting to 25 April 2017)
Patrick F Wright (from 26 April 2017)

(b) KMP changes after 30 September 2017

Ms Ann Sherry was appointed as a non-executive director to the Board, effective 8 November 2017. Ms Sherry will be a member of the Remuneration Committee.

Remuneration report (continued)

Section 3 - Executive remuneration strategy and framework

3.1. A remuneration policy that supports the Group's approach to risk management and strategy

The Group's remuneration policy is designed to support NAB's strategy through building a strong culture that encourages the right behaviours to deliver sustainable customer, shareholder and business outcomes. This is reinforced through appropriate consequences being applied when there is inappropriate risk taking or poor behaviours demonstrated.

Our purpose	**Back the bold who move Australia forward**
Our vision	**To be Australia and New Zealand's most respected bank**

Our remuneration policy is designed to support our vision:

- Attracting, retaining and rewarding high performers to drive company performance without encouraging poor customer outcomes.
- Aligning the interests of senior executives and shareholders through ownership of NAB securities.
- Complying with jurisdictional remuneration regulations and Group diversity, inclusion and pay equity commitments.

Fixed Remuneration	STI	LTI
Attract, retain and reward a high performing team to deliver on NAB's strategy and the Group's performance • Cash and benefits (including superannuation) • Set with consideration of role complexity and responsibilities; capabilities; experience and knowledge; business and individual performance; internal and external market role relativities • Adjustments are only made to senior executive remuneration when they are not market competitive and not for annual cost of living adjustments • Market data includes a peer group of 18 ASX-listed companies, including NAB's major competitors	***Align delivery of NAB's strategy and shareholder outcomes with annual incentives*** **Maximum opportunity** • 175% of FR for all senior executives in 2017 • 150% of FR for the Group CEO in 2018 **Allocation methodology** • Fair value for all senior executives **Group performance** • Cash earnings (40%) / cash ROE (30%) / ROTAE (30%) • Adjusted based on risk management, shareholder expectations and the quality of financial results **Individual performance** • 4 equally weighted objectives: customer, risk, financial and strategy • Conduct Gate: Amber reduces STI by 25%; Red reduces STI to zero and prior years' unvested STI is forfeited • Demonstrated values and behaviours **STI reward** • STI outcomes may range from 0% to the maximum opportunity above • 50% provided as cash and 50% deferred and provided as performance rights • Deferred STI vests only if service and performance conditions are met, subject to Board discretion	***Encourage sustainable long-term performance*** **Maximum opportunity** • 130% of FR (Group CEO) • 100% of FR (most senior executives) • 70% of FR (Chief Risk Officer and Chief Legal & Commercial Counsel) **Allocation methodology** • Group CEO based on face value (previously fair value) • Fair value for other senior executives, subject to a policy that limits the total number of performance rights allocated (refer to **Section 6.2**) **LTI performance** • Four year performance period • Measured against: relative Cash ROE growth (50%) and relative TSR (50%) • Conduct Gate: Amber reduces LTI by 25%; Red reduces LTI to zero and prior years' unvested LTI is forfeited **LTI reward** • LTI outcomes may range from 0% to 100% of the allocation value • 100% provided as performance rights • Group CEO: Dividend equivalent payment for the period 1 October 2017 to the end of the restriction period (December 2021) on any vested LTI • LTI vests only if performance conditions are met, subject to Board discretion

Mandatory shareholding requirements

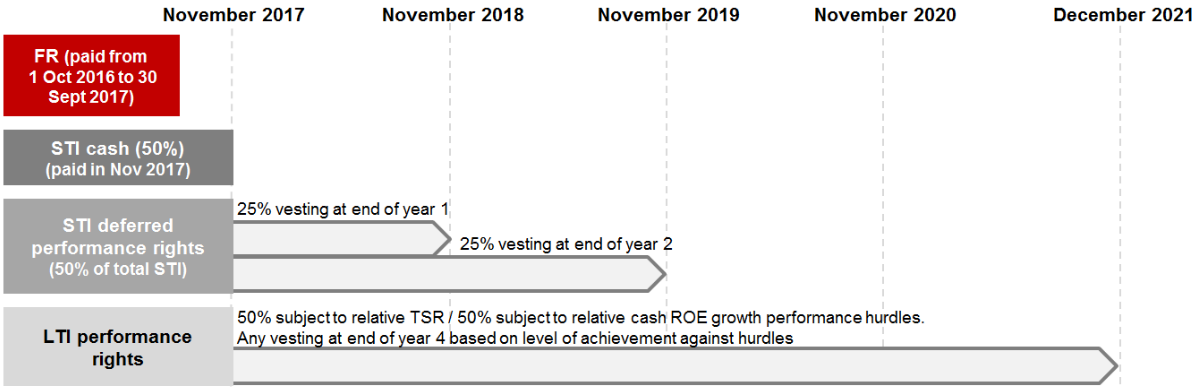
Senior executives are required to accumulate and retain NAB equity over a five year period from commencement as KMP to an amount equal to:

• Two times Fixed Remuneration for the Group CEO.

• One times Fixed Remuneration for other senior executives.

Remuneration report (continued)

Senior executive remuneration is structured to be paid over four years to link current year remuneration with longer-term outcomes of the Group. At-risk remuneration awarded to senior executives for 2017 may be provided at various times out to December 2021, subject to achievement of relevant performance and services conditions.

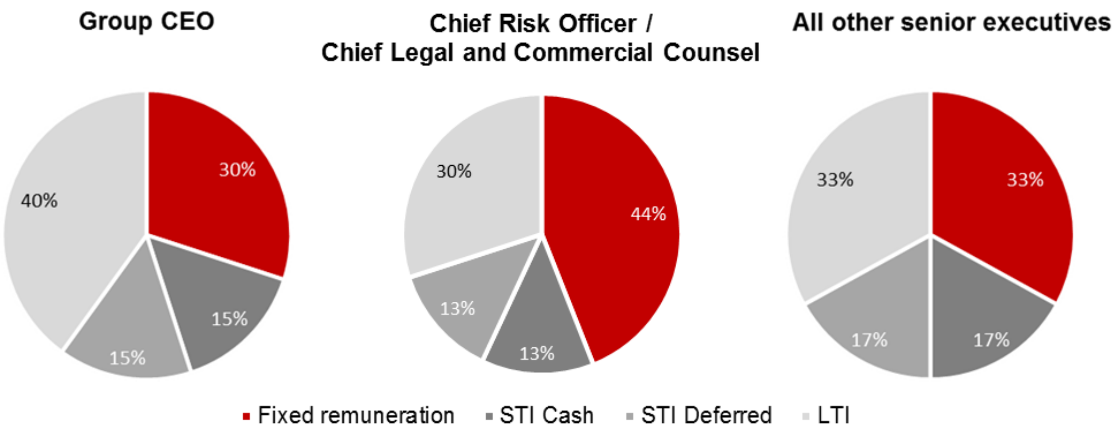


For the Group CEO, 69% of variable remuneration (at maximum opportunity) is deferred and for the other senior executives 68% to 70% of variable remuneration (at maximum opportunity) is deferred, based on fair value.

3.2. A remuneration mix to encourage performance

The weighting of the at-risk remuneration components reflects the Board's commitment to performance-based reward. The graphs below illustrate the mix of remuneration components as a proportion of total remuneration used when structuring the annual remuneration for senior executives. **Section 4** describes 2017 performance outcomes relative to the performance measures under the STI and LTI, and how this has impacted remuneration outcomes for the 2017 financial year.

The Chief Risk Officer and Chief Legal & Commercial Counsel play an important role in the oversight of the financial and risk performance of the Group and its employees. The reward mix set for these roles is structured to recognise these responsibilities and to support the independence required of these roles through providing a higher proportion of fixed remuneration than other senior executives and placing a greater emphasis on the LTI rather than the STI component of their variable reward.



3.3. Remuneration plan governance

- *Conduct standards*: All variable reward is subject to compliance with NAB's Code of Conduct (NAB's Code of Conduct is found online at: www.nab.com.au/about-us/corporate-governance/national-australia-bank-limited-code-of-conduct).
- *Cessation of employment*: If an executive resigns, any unvested STI and LTI will generally lapse or be forfeited, unless the Board determines otherwise. Any unvested STI and LTI awards that are retained will remain subject to the original performance criteria and timetable.
- *Malus and Board discretion*: The Board has absolute discretion, subject to compliance with the law, to adjust variable reward down, or to zero, where appropriate. This includes varying vesting of deferred STI and LTI awards. The Board may consider the Group's financial performance, management of business risks, shareholder expectations and the quality of the financial results. Malus and Board discretion may apply to any employee across the Group, by Division, by role and / or individual, depending on circumstances.
- *Insider trading and hedging policy*: Directors and employees are prohibited from protecting the value of their equity awards by hedging. Further details are available in the Group Securities Trading Policy, found online at: www.nab.com.au/content/dam/nabrwd/About-Us/group-securities-trading-policy-nabgroup-version.pdf.
- *Change of control*: The Board generally has discretion to determine the treatment of unvested equity at the time a change of control event occurs.

Report of the Directors

Remuneration report (continued)

Section 4 - Performance and remuneration outcomes

4.1. Financial performance

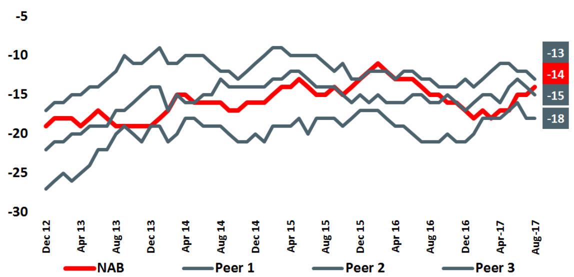
The following table shows the Group's annual performance over the last five years. The table shows the impact of Group performance on shareholder value, taking into account dividend payments, share price changes, and other capital adjustments during the period.

Financial performance measure	**Link to the remuneration framework**	**2017**	**2016**	**2015**	**2014**	**2013**
Basic earnings per share (cents) (1)		228.2	242.4	271.7	214.1	225.9
Cash earnings ($m) (1)	Group STI pool; LTI ROE growth measure	6,642	6,483	6,222	5,055	5,747
Dividends paid per share	LTI relative TSR measure	$1.98	$1.98	$1.98	$1.96	$1.83
Company share price at start of year	LTI relative TSR measure	$27.87	$29.98	$32.54	$34.32	$25.49
Company share price at end of year	LTI relative TSR measure	$31.50	$27.87	$29.98	$32.54	$34.32
Absolute TSR for the year	LTI relative TSR measure	**20.1%**	**(0.7%)**	**(2.0%)**	**0.4%**	**42.9%**

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

4.2. Turning customers into advocates

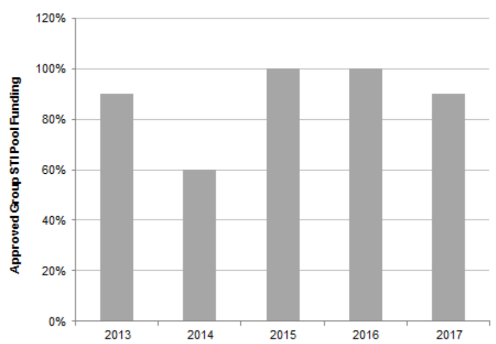
NAB is focused on improving customer advocacy, as measured through the Net Promoter System (1). Performance is measured against the other major banks using the Net Promoter Score (NPS) for NAB's priority customer segments. The Net Promoter System is used to develop a strong culture of customer focus across the Group and is one of the measures used in assessing senior executives' performance and determining STI (see **Section 4.3(b)**). The graph shows NAB's Priority Segments NPS performance since December 2012 to August 2017.



4.3. STI outcomes

(a) Forming the pool to fund the STI

The pool is funded based on the Group's achievement against three financial measures: cash earnings (40%), cash ROE (30%) and ROTAE (30%). The Group's policy on reward mix provides a variable remuneration component (including STI) for the majority of employees. The Committee, in consultation with the Board Risk Committee, recommends the size of the Group STI pool to the Board, taking into account a qualitative overlay that reflects the Group's management of business risks, shareholder expectations and the quality of the financial results. The Board has absolute discretion to ensure that the Group STI pool is properly aligned with, and reflects, the Group's performance during the year. No STI pool is available in a year where Group financial performance is not sufficient to form a pool and over the years, the pool has been set to align with Group performance. The level of funding of the pool for the last 5 years has been:



In 2017, all funding measures were achieved. The Board exercised its discretion to set the size of the STI pool at 90% for 2017 based on the Board's consideration of the quality of the financial results, risk management, regulatory compliance, customer outcomes, shareholder returns, diversity and employee engagement. The 2017 pool is 6.1% of cash earnings and will be distributed to approximately 29,400 employees as well as the Group CEO and senior executives.

(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. Priority segments Net Promoter Score (NPS) is a simple average of the NPS of four priority segments: NAB defined Home Owners and Investors, as well as Small Business ($0.1m-<$5m) and Medium Business ($5m-<$50m). The Priority segments NPS data is based on six month moving averages from Roy Morgan Research and DBM BFSM Research as at 31 August 2017.*

Remuneration report (continued)

(b) Individual outcomes

Individual performance is assessed holistically based on what has been achieved and how it has been achieved. This includes achievement of objectives that support delivery of NAB's strategy, conduct expectations of an individual's role, and demonstration of NAB's values and behaviours.

NAB's values are a key part of achieving NAB's vision and strategic objectives. They are:

Overall performance is assessed using a five-point rating scale:

Performance Outcome	Descriptor
5 – Outstanding	Meeting the core role requirements of your job AND outstanding against goals, values and behaviours
4 – Highly Achieved	Meeting the core role requirements of your job AND high performance against goals, values and behaviours
3 – Achieved	Meeting the core role requirements of your job AND achieving all goals, values and behaviours
2 – Partially Achieved	Meeting the core role requirements of your job AND partially meeting goals, values and behaviours
1 – Not Achieved	Not meeting the core role requirements of your job OR not meeting the majority of goals, values and behaviours

The following provides a summary of the Board's assessment of senior executives' performance for 2017.

Category	Measures and results	2017 range of performance outcomes awarded to senior executives

Customer *(25%)*	• NAB held the #2 rank in **Priority Segments NPS** with a score of -14 (August 2016 to August 2017). The baseline score was -15 with a target of +3 improvement. NAB has partially achieved the stretch goal for 2017. (NAB's Priority Segments NPS score improved to -13 and NAB's rank to #1 as at end September 2017.)
	• The Group is committed to using customer feedback to redesign customers' end-to-end experience. Examples of outcomes delivered during 2017 include:
	  • Upgraded digital capabilities in NAB Labs and formed innovative partnerships with parties such as Realestate.com.au.
	  • A new 10 minute digital onboarding for business customers with simple needs.
	  • A faster and easier application process for Everyday Accounts, reducing the application time to 7 minutes.
	  • A simplified digital Superannuation portal that helps customers better understand their retirement options.
		Partially achieved

Risk *(25%)*	• The Group continues to be subject to a number of regulatory investigations. There were also instances of potential and actual breaches of compliance obligations during the year. While work progresses, the outcome is not yet fully resolved or remediated to the target state. • A simpler business and stronger control environment improved the risk profile and outlook for operational risk, which will continue to be an area of focus. • Key elements of the Group's risk management framework, particularly credit management, prudential compliance and conduct obligations, were strengthened. • Performance against risk appetite in credit risk, market risk, balance sheet and liquidity risk management was strong. • Despite an uplift in many aspects of compliance risk management, expectations and compliance obligations increased and the risk and control environment will require further improvement and investment.	Partially achieved to Achieved
Financial *(25%)*	• **Cash earnings** were $6,642 million for 2017, up 2.5% compared to 2016, largely driven by higher net interest income from increased volumes and repricing, partially offset by higher operating expenses largely from continued investment in the business, net of productivity savings. The charge for bad and doubtful debts rose slightly due to increased collective provision overlays. • **Revenue** increased 2.7% for 2017 largely driven by higher net interest income from increased volumes and repricing. • **Expenses** rose by 2.6% driven by continued investment in technology and associated depreciation and amortisation charges, higher redundancy costs and the impact of annual salary increases. These items were partially offset by productivity benefits including workforce restructuring, digitisation, and reduction in third party spend. • **Cash ROE** decreased by 30 basis points to 14.0% compared to 2016. Continued to shift NAB's portfolio towards business lines with higher returns where NAB has a strong capability to compete.	Achieved to Highly achieved

Remuneration report (continued)

Category	Measures and results	2017 range of performance outcomes awarded to senior executives
	• The Group remained well capitalised during 2017 and is operating above the **Common Equity Tier 1 (CET1) target ratio** 8.75% - 9.25% with a CET1 ratio of 10.06% as at 30 September 2017.	

Strategy & Leadership
(25%)
	• Achieved productivity savings of $301m during the year as a result of a strategic drive for productivity and efficiency, while focussing on simplifying and streamlining operations through automation and operational excellence.
	• TSR ranking of #1 against the other major banks was above the FY17 target of a rank of #3.
	• Development, articulation and implementation of the Group's Purpose, reinforcing the Group's sustainable customer-centric culture.
	• Reshaping of incentives to support the right customer outcomes and align to Sedgwick review recommendations.
	• Achieved 4 of 5 of the 2017 gender diversity metrics.
	• Employee engagement score of 59%, was below the Group's objective of top quartile performance – 67% [(1)]. The top quartile benchmark was exceeded in a number of areas, including how our people leaders individually coach, communicate and lead, careers and development, and commitment to corporate responsibility.
	• Continued enhancements to products and services through digitisation and innovation including:
	  • The expansion of the eligibility criteria of QuickBiz unsecured loans, enabling more small business customers to access funding quickly.
	  • The launch of the Group's next generation HICAPS solution in partnership with Melbourne start-up Medipass Solutions.
	  • The launch of an Application Programming Interface Developer Portal which provides the opportunity for approved third party developers to share data with NAB to deliver more integrated experiences for customers.
		Achieved to Highly achieved

		% of max. opportunity awarded
	Overall STI outcome:	Group CEO: 49% Other senior executives: 33% to 66%

(1) 2017 Employee Engagement Survey conducted by Aon Hewitt. The engagement score indicates the percentage of employees at NAB that are strong advocates (SAY), demonstrate a commitment to NAB (STAY) and exerts discretionary effort (STRIVE).

All senior executives were assessed with a Green Conduct Gate and to have demonstrated NAB's values and the behaviours expected of their role. The overall individual performance outcomes ranged from achieved to highly achieved. The following table provides the 2017 STI outcomes for the senior executives based on fair value. Section 6.7 provides detail on both the fair and face value of the deferred STI awards at allocation.

Name	STI maximum[(1)] $	Actual STI as % of STI maximum %	STI actual $	Cash STI[(2)] $	Deferred STI (approx. 1 year)[(3)] $	Deferred STI (approx. 2 year)[(4)] $
Executive director						
AG Thorburn	4,025,000	49	1,955,000	977,500	488,750	488,750
Other senior executives						
MB Baird (for part year)	937,808	49	455,506	227,754	113,876	113,876
AJ Cahill	2,100,000	49	1,020,000	510,000	255,000	255,000
SJ Cook (for part year)	382,027	49	185,557	92,779	46,389	46,389
AD Gall	1,365,000	49	663,000	331,500	165,750	165,750
AP Hagger	2,100,000	46	960,000	480,000	240,000	240,000
AJ Healy	1,771,532	66	1,164,149	582,075	291,037	291,037
GA Lennon	1,750,000	49	850,000	425,000	212,500	212,500
A Mentis	2,100,000	63	1,320,000	660,000	330,000	330,000
LN Murphy	1,400,000	49	680,000	340,000	170,000	170,000
PF Wright (for part year)	2,275,000	49	1,105,000	552,500	276,250	276,250
Former senior executives						
CA Carver (for part year)	1,489,266	42	630,074	472,555	157,519	-
MR Lawrance (for part year)	958,438	33	313,336	235,002	78,334	-

(1) The highest possible STI that could be awarded if the Group STI pool was funded at the maximum level and the individual received the highest possible performance outcome.
(2) The amount reflects 50% of the STI to be provided to eligible current senior executives and the Group CEO. The amount reflects 75% of the STI to be provided to eligible former senior executives. The cash component of the STI received in respect of 2017 is scheduled to be paid on 15 November 2017 in Australia and 30 November 2017 in NZ.
(3) The amount reflects 25% of the STI to be provided to eligible senior executives and the Group CEO. The amount is provided in performance rights or shares (to former senior executives) to be allocated in December 2017 and restricted until November 2018.
(4) The amount reflects 25% of the STI to be provided to eligible current senior executives and the Group CEO. The amount is provided in performance rights to be allocated in December 2017 and restricted until November 2019.

Deferred STI is provided as performance rights to current senior executives and the Group CEO, and as shares to former senior executives. The deferred STI is restricted and may be fully or partially lapsed if service and performance conditions are not met or at the Board's discretion.

Remuneration report (continued)

4.4. LTI outcomes

The table below shows the performance of the Group against the LTI performance hurdles for the 2012 LTI award which was tested during 2017. The award has two TSR performance hurdles. Vesting for both hurdles is based on NAB's TSR result against two TSR peer groups. The vesting schedule is: 50% vesting at the 50th percentile on a straight line scale up to 100% vesting at the 75th percentile. The performance hurdles were not achieved and therefore none of the 2012 LTI vested. The performance rights are subject to a final test over a five year performance period (12 November 2012 to 12 November 2017) in November 2017.

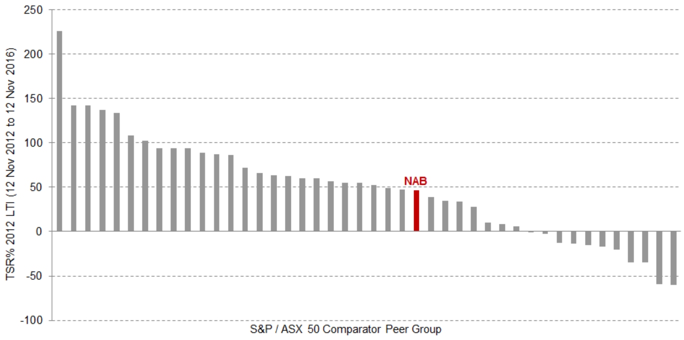
Details of the LTI award granted in respect of 2012 can be found in NAB's 2012 and *Remuneration report* which is contained in NAB's 2012 *Annual Financial Report* available online at www.nab.com.au/annualreports.

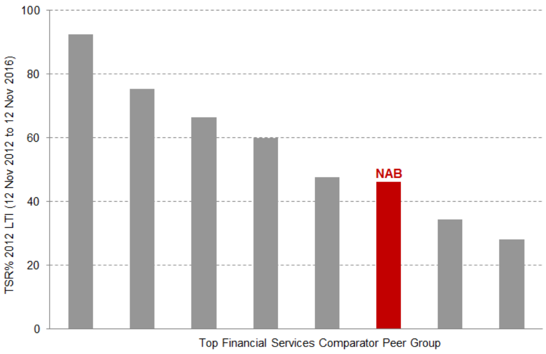
Performance hurdle	Performance period	Percentile ranking	% of rights vested	% of rights lapsed	% of rights remaining
TSR relative to S&P/ASX50 (50%) (1)	12/11/2012 to 12/11/2016	42nd	-	-	100
TSR relative to Top Financial Services (50%) (2)	12/11/2012 to 12/11/2016	29th	-	-	100

(1) *The peer group for this performance hurdle is the Standard & Poors / ASX capitalisation index comprised of the 50 largest companies by market capitalisation in Australia.*

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

The graphs below show NAB's relative TSR performance against the comparator peer groups for the 2012 LTI performance hurdles.

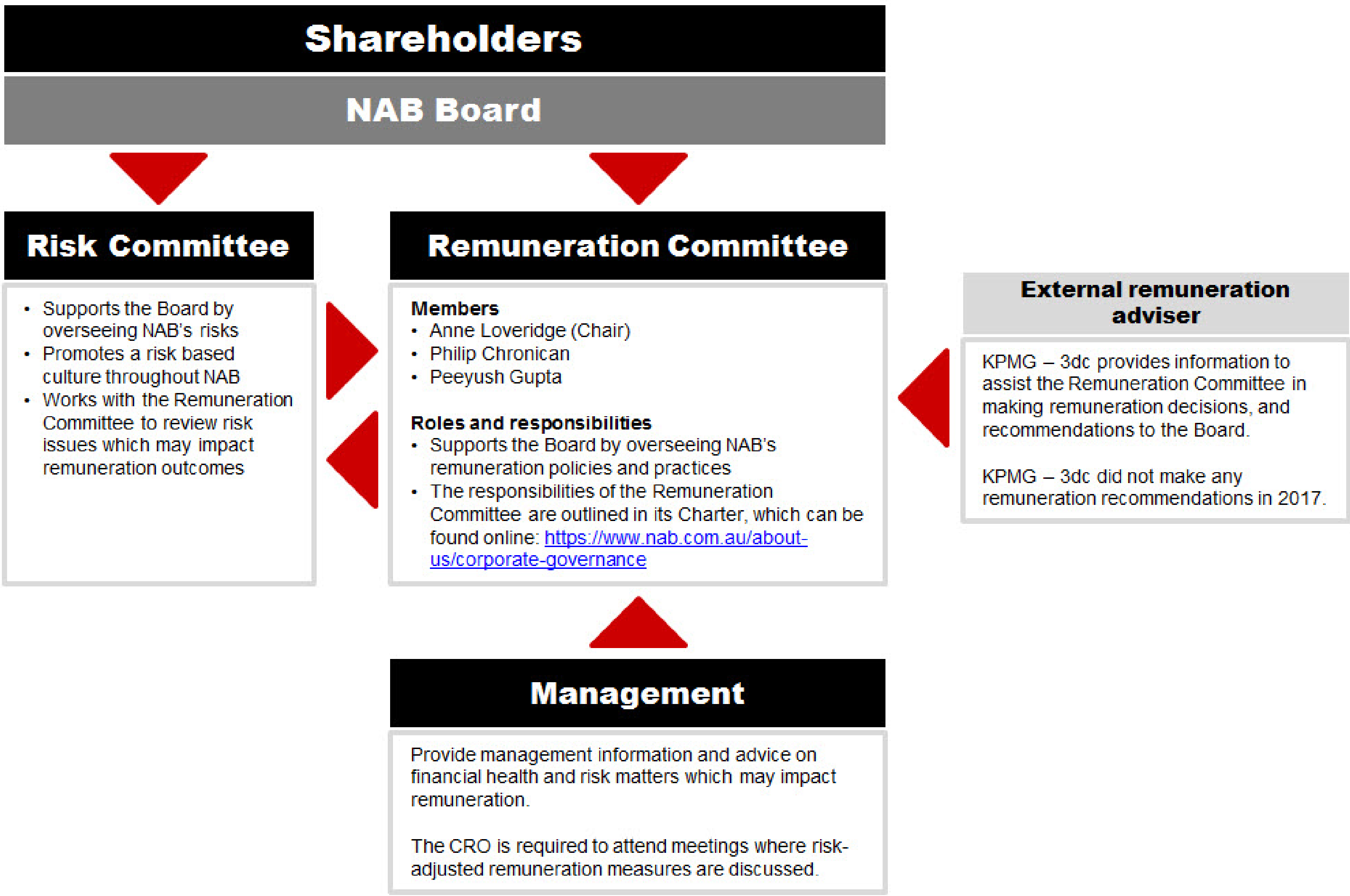




Section 5 - Remuneration governance

The Committee is responsible for reviewing, assessing and recommending to the Board, remuneration policies and practices that enhance long-term shareholder returns, nurture a strong culture and are in accordance with regional regulatory requirements and global regulatory trends. The Committee considers the interests of other stakeholders, including customers and the communities in which the Group operates in fulfilling its responsibilities.

The remuneration governance framework is illustrated in the diagram below.



The Committee's remuneration decisions are based on an assessment of the Group's financial performance against the risk appetite framework. In 2017, activities included:

- A review of the global remuneration policy to maintain alignment with business and regulatory requirements.
- Monitoring of risk management and consequence management on a regular basis, covering incidents of behaviour that are inconsistent with the Group's risk management framework, desired culture, Code of Conduct or values, and the impact on incentive outcomes to ensure management is addressing poor conduct.
- Commencement of a review of the Group's senior executive remuneration framework and changes to the Group CEO's remuneration.
- Reviewing a formal end of year report provided by the Group CEO, CRO and CFO to the Committee assessing the overall health of the Group's financial result against the risk management framework and Board approved risk appetite. This includes consideration of the Group's overall risk profile, prudential compliance, breaches and incidents, timeliness of escalation and management of events and breaches. A joint meeting of the Committee and the Board Risk Committee was held to review the findings. In light of outcomes, the Committee recommended overall 2017 incentive outcomes for the Group.
- Consideration of individual risk performance assessments and the impact on senior executive's incentive outcomes, and recommendations to the Board on senior executives' incentive and remuneration outcomes.
- Reviewing and making recommendations to the Board on the overall incentive and remuneration outcomes for risk, compliance, internal audit, financial control employees and other identified roles which perform activities that may affect the financial soundness of the Group.
- Monitoring the implementation and transition approach related to the ABA Retail Banking Remuneration Review recommendations.

Remuneration report (continued)

Section 6 - Executive remuneration disclosures in detail

This section provides detailed information on all remuneration related items for the Group CEO and Senior Executives.

6.1. Statutory remuneration

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. The table shows 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). This table is different to the realised remuneration table on page 34, which is a voluntary non-statutory disclosure showing remuneration realised in 2017.

In addition to the 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.

		Short-term benefits			Post-employment benefits		Equity-based benefits			
Name		Cash salary[(1)] $	Cash STI[(2)] $	Non-monetary[(3)] $	Superannuation[(4)] $	Other long-term benefits[(5)] $	Shares[(6)] $	Rights[(7)] $	Other payments[(8)] $	Total[(9)] $
Executive director										
AG Thorburn	**2017**	**2,216,311**	**977,500**	**2,534**	**30,646**	**37,881**	**42**	**3,366,164**	**-**	**6,631,078**
	2016	2,362,779	1,380,000	3,021	37,967	37,832	253	2,887,815	-	6,709,667
Other senior executives										
MB Baird (for part year)	**2017**	**535,766**	**227,754**	**6,931**	**13,358**	**2,184**	**-**	**100,852**	**-**	**886,845**
AJ Cahill	**2017**	**1,190,793**	**510,000**	**11,545**	**20,756**	**14,222**	**258,508**	**1,099,387**	**-**	**3,105,211**
	2016	1,028,323	600,000	18,947	21,246	12,710	26,205	882,560	-	2,589,991
SJ Cook (for part year)	**2017**	**375,843**	**92,779**	**4,691**	**12,383**	**1,483**	**-**	**44,995**	**-**	**532,174**
AD Gall	**2017**	**1,229,156**	**331,500**	**231,723**	**27,862**	**20,860**	**-**	**822,379**	**-**	**2,663,480**
	2016	1,204,456	432,000	243,026	31,849	17,558	-	669,414	-	2,598,303
AP Hagger	**2017**	**1,154,125**	**480,000**	**24,863**	**20,756**	**19,255**	**217,661**	**1,540,183**	**-**	**3,456,843**
	2016	1,043,257	660,000	65,367	21,072	17,558	818,731	1,456,083	-	4,082,068
AJ Healy	**2017**	**897,146**	**582,075**	**20,475**	**70,411**	**13,020**	**946**	**1,183,827**	**-**	**2,767,900**
	2016	894,030	486,777	11,224	67,686	9,149	935	908,721	-	2,378,522
GA Lennon	**2017**	**981,472**	**425,000**	**5,479**	**20,756**	**14,592**	**73,809**	**711,212**	**-**	**2,232,320**
	2016	502,412	274,809	3,045	12,508	7,241	99,752	254,128	-	1,153,895
A Mentis	**2017**	**1,100,800**	**660,000**	**52,419**	**20,756**	**19,413**	**258,508**	**1,150,227**	**-**	**3,262,123**
	2016	1,108,671	600,000	40,359	21,246	19,308	26,205	868,285	-	2,684,074
LN Murphy	**2017**	**752,193**	**340,000**	**165,534**	**21,000**	**4,840**	**313,090**	**441,885**	**-**	**2,038,542**
	2016	419,916	650,000	179,718	16,603	1,934	421,832	114,466	-	1,804,469
PF Wright (for part year)	**2017**	**647,019**	**552,500**	**227,465**	**-**	**2,293**	**-**	**159,946**	**2,796,294**	**4,385,517**
Former senior executives										
CA Carver (for part year)	**2017**	**358,361**	**472,555**	**-**	**13,510**	**1,925**	**739,796**	**-**	**-**	**1,586,147**
	2016	118,959	133,325	-	1,760	581	260,796	-	-	515,421
CM Drummond (for part year)	2016	598,239	-	2,495	7,729	3,990	71,776	(784,609)	-	(100,380)
MJ Healey (for part year)	2016	674,401	704,008	5,661	18,582	11,397	-	845,034	631,801	2,890,884
MR Lawrance (for part year)	**2017**	**316,390**	**235,002**	**55**	**13,493**	**6,047**	**304,437**	**43,750**	**-**	**919,174**
	2016	45,500	36,870	7	1,402	672	37,692	7,140	-	129,283
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)	2016	796,646	828,244	11,409	18,321	27,726	218	551,692	1,353,187	3,587,443
GR Slater (for part year)	2016	897,729	819,962	5,639	18,147	15,292	-	1,165,925	1,077,395	4,000,089
Total senior executives	**2017**	**11,755,375**	**5,886,665**	**753,714**	**285,687**	**158,015**	**2,166,797**	**10,664,807**	**2,796,294**	**34,467,354**
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

(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 2017 is scheduled to be paid on 15 November 2017 in Australia and 30 November 2017 in NZ. The amount reflects 50% of the STI to be provided to eligible current senior executives and the Group CEO. The amount reflects 75% of the STI to be provided to eligible former senior executives who were acting senior executives and remained on the remuneration arrangements associated with their previous role. The cash component of the STI received in respect of 2016 was paid in full during 2017 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.*

(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 Glossary for an explanation of the fair value approach used to determine equity-based benefits. Amounts shown for 2017 include portions of shares allocated under employee programs as follows:*
a) General Employee shares granted in December 2013, December 2014, March 2016, December 2016 and to be granted in December 2017, to eligible senior executives at the relevant offer time. The shares vest after a three-year restriction period. In NZ the shares are subject to forfeiture conditions, including on resignation.

Remuneration report (continued)

b) Deferred STI shares granted in March 2016 in respect of performance in 2015 and restricted until November 2016, February 2017 in respect of performance in 2016 and restricted until November 2017, and to be granted in February 2018 in respect of performance in 2017 and restricted until November 2018, subject to performance and service conditions.

c) Retention shares granted to Mr Hagger in May 2016. The shares were restricted for approximately 8 months and subject to achievement of key project deliverables and service conditions. The grant fully vested in January 2017.

d) Customer Advocacy Incentive shares granted to Mr Lawrance and Mr Lennon 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 which have been fully met. Customer Advocacy Incentive shares granted to Ms Carver and Mr Lawrance in February 2017. The shares are restricted until December 2018 and are subject to achievement of 2018 NPS targets and service conditions.

e) Commencement shares allocated to Ms Carver in March 2016 with 39% fully vested 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 fully expensed prior to Ms Carver becoming a senior executive.

f) Commencement shares allocated to Ms Murphy in May 2016 with 35% vested in September 2016, 32.5% vested in September 2017 and 32.5% scheduled to vest in September 2018, subject to performance and service hurdles.

g) 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.

h) Restricted share awards granted in August 2016 to Ms Carver and to Mr Lawrance in October 2016 were restricted for approximately 12 months. The shares fully vested in July 2017 for Ms Carver and August 2017 for Mr Lawrance. The shares were 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 Glossary for an explanation of fair value approach used to determine equity-based remuneration. Amounts shown for 2017 include portions of performance rights allocated under employee programs, as shown below:*

a) Deferred STI rights granted in February 2015 in respect of performance in 2014, March 2016 in respect of performance in 2015, February 2017 in respect of performance in 2016, and to be granted in December 2017 in respect of performance in 2017. The performance rights are granted with half of each grant restricted for approximately 14 months after the end of the performance year and the remaining half for approximately 26 months after the end of the performance year.

b) LTI performance rights granted in December 2012, December 2013, December 2014 (and for the Group CEO in February 2015), December 2015 (and for the Group CEO in March 2016), December 2016 (and for the Group CEO in February 2017) and in December 2017 under the Group's LTI program.

(8) *To compensate for awards from his prior employer which were forfeited as a result of joining NAB, Mr Wright received a commencement award of A$801,627 paid in cash on 3 May 2017 and A$328,906 paid in cash on 6 September 2017. The remaining amount is scheduled to be paid in cash: A$717,042 in March 2018, A$607,629 in March 2019 and A$341,091 in March 2020. In accordance with accounting standards the full amount of Mr Wright's commencement award has been expensed in 2017. An exchange rate as at 30 September 2017 has been used to determine the value shown. The amounts shown in 2016 for Ms Healey, Ms Roberts and Mr Slater are termination payments related to the cessation of their employment with NAB on 30 September 2016 (see the 2016 Remuneration report for further details).*

(9) *The percentage of 2017 total remuneration related to performance-based remuneration was: Mr Thorburn 66%, Mr Baird 37%, Mr Cahill 60%, Ms Cook 26%, Mr Gall 43%, Mr Hagger 65%, Mr Healy 64%, Mr Lennon 54%, Ms Mentis 63%, Ms Murphy 54%, Mr Wright 16%, Ms Carver 76%, Mr Lawrance 63%.*

Remuneration report (continued)

6.2. LTI to be granted in respect of 2017

Senior executives (including the Group CEO, subject to shareholder approval) will be granted LTI performance rights in December 2017. The key features of the LTI award are:

	Tranche 1 - cash ROE growth	Tranche 2 - relative TSR
Performance hurdles	50% of the award is subject to cash ROE growth. NAB's cash ROE Growth is ranked against a peer group of: - Australia and New Zealand Banking Group Limited - Commonwealth Bank of Australia - Westpac Banking Corporation (ROE Peer Group) The cash ROE movement is calculated by comparing the financial reporting year 2017 cash ROE (representing the opening period) and the average cash ROE of the performance periods over the Performance period.	50% of the award is subject to Relative TSR performance relative to a financial services peer group comprising: - Australia and New Zealand Banking Group Limited - Commonwealth Bank of Australia - Westpac Banking Corporation - AMP Limited - Bank of Queensland Limited - Bendigo & Adelaide Bank Limited - Suncorp Group Limited (TSR Peer Group). TSR is calculated by an independent external consultant based on the 30 day volume weighted average share price up to and including the performance period start and end dates.
Performance period	The financial reporting years 2018 to 2021. (ROE Measurement Period)	14 November 2017 to 14 November 2021
Vesting schedule	Vesting is based on NAB's cash ROE growth ranking against the ROE Peer Group: Ranking: 4th = 0%, 3rd = 25%, 2nd = 50%, 1st = 100%	Vesting based on NAB's TSR result against the TSR Peer Group: 50% vesting at the 50th percentile (or median) on a straight line scale up to 100% vesting at the 75th percentile
Instrument	Performance rights. The Group CEO will receive a dividend equivalent payment [(1)] for any performance rights that vest.	
Determining the number of performance rights awarded	The number of performance rights allocated depends on each executives LTI maximum opportunity (see **Section 3.1**). **Group CEO** The LTI opportunity is divided by the weighted average share price (WASP) for the period 25 September to 29 September 2017. **Other senior executives** 50% of the LTI maximum opportunity (see **Section 3.1**) is divided by the Tranche 1 fair value and 50% of the LTI opportunity is divided by the Tranche 2 fair value. Details of the fair values and the actual number of performance rights that will be granted to the Group CEO (subject to shareholder approval at the 2017 AGM) and the other senior executives is shown in **Section 6.7**.	
Maximum WASP discount limits	Consistent with 2016, a policy applies that limits the total number of performance rights allocated to senior executives under the fair value allocation methodology. The policy limits the maximum discount applied in determining the number of LTI performance rights to be awarded to no more than: • 25% of the WASP for Tranche 1 of the LTI award; and • 50% of the WASP for Tranche 2 of the LTI award. The price then used to determine the number of performance rights to be awarded for each tranche of the LTI award will be the greater of: • the WASP calculation outlined above for the relevant tranche; and • the fair value for the relevant tranche. The maximum discount rate is different for each tranche as the fair value assumptions and inputs are different due to Tranche 1 being linked to an internal performance hurdle and Tranche 2 linked to a market performance hurdle.	

(1) *A cash amount equivalent to the gross value of any dividends (including payment for the value of imputation credits which applied to the dividends) which would have been paid to the Group CEO if he had held a number of shares equivalent to any LTI performance rights that may vest, during the period 1 October 2017 to the end of the LTI restriction period (December 2021). The dividend equivalent payment may be adjusted for any bonus and rights issues, aggregations and reconstructions in relation to NAB shares during the period from 1 October 2017 to the end of the LTI restriction period.*

The Committee is closely monitoring the measurement and assumptions involved in calculating cash ROE for NAB and the peer group to ensure that there are no unintended consequences resulting from the introduction of this performance hurdle in 2016. Reported cash ROE as disclosed in each bank's results announcement is used as the starting point for assessing the performance hurdle. The following principles have been adopted by the Committee when considering adjustments:

- Adjustments are restricted to items that are not reflective of underlying business performance and are specifically disclosed as one-off or specified items.
- Items must be easily identifiable in published results.
- Decisions made for longer-term shareholder benefit should have their short-term impact adjusted (e.g. loss on sale of low returning business).
- Adjustments may be treated differently in the opening period i.e. full financial year 2017 (FY17) and the ROE Measurement Period. Adjustments to the opening period may be required to ensure the opening period baseline is reported on a consistent basis.
- Materiality thresholds are applied to any potential adjustments.

A qualitative assessment is applied to any potential adjustments that meet the criteria above. This involves consideration of factors such as consistency of adjustments across the ROE Peer Group and whether the adjustments impact the vesting outcome. An external firm will review any proposed adjustments to headline cash ROE measures and provide the Committee with advice on whether they are in accordance with the principles outlined above and have been calculated accurately.

Remuneration report (continued)

6.3. LTI in respect of 2016

For the LTI award allocated in December 2016 (and February 2017 for the Group CEO), the Committee has approved the following cash ROE opening period for NAB and each of the ROE Peer Group:

Bank	Disclosed cash ROE	Adjusted cash ROE for opening period (FY16)	Details of adjustments
NAB	14.3%	14.3%	• No adjustments
ANZ	10.3%	12.1%	• 2016 cash earnings adjusted by *$989m* for 4 items disclosed by ANZ and considered to be 'one-off' in nature: • Software amortisation *($389m)* • Impairment of carrying value of minority investment in Ambank *($260m)*, partially offset by gain on sale of stake in Bank of Tianjin *($29m)* • Credit Valuation Adjustment Methodology change *($168m)* • Restructuring expenses for simplification of Institutional and Wealth businesses, restructure of Asia Retail & Pacific and digitisation in Australia, New Zealand and Group Centre *($201m)*
CBA	16.5%	16.5%	• No adjustments
WBC	14.0%	14.0%	• No adjustments

The Board has absolute discretion to adjust the disclosed cash ROE to ensure a fair and reasonable comparison over time.

6.4. Other awards granted during the year

During the year Patrick Wright, Chief Technology & Operations Officer commenced employment with NAB. Mr Wright has global experience as Chief Operations & Technology Officer of Barclaycard, leading a significant workforce. He has extensive, proven experience in driving major transformations in large financial services companies and innovating in fast-paced, competitive and highly-regulated markets. As the Group reshapes the business, Mr Wright is key to the execution of the Group's strategy and will lead the simplification, digitisation and automation agenda to deliver greater efficiency and create a simpler and easier experience for customers and bankers.

In line with NAB's objective to 'be known for great leadership, talent and people' and as the skills and experience required to fill this role were not available in Australia, NAB looked to international markets. In order to provide a competitive remuneration package, the Board approved a cash payment of US$2.136m as part of Mr Wright's commencement arrangements to buy-out existing entitlements with his former employer that were forfeited on his resignation. Mr Wright's commencement award was agreed with regard to the quantum and timing of the entitlements Mr Wright forfeited to join NAB. The first instalment of US$605,950 (A$801,627) was paid post commencement and a second instalment of US$260,000 (A$328,906) was paid in September 2017. The remainder of the award is payable over the next three years: US$546,572 in March 2018, US$463,171 in March 2019 and US$260,000 in March 2020.

6.5. Value of shares and performance rights

The following table shows the value of shares and performance rights that were granted, lapsed or vested for each senior executive during 2017. The value shown is the full accounting value to be expensed over the vesting period, which is generally longer than the current year. Senior executives did not pay any amounts for performance rights that vested and were exercised during 2017. The number of shares provided when the rights exercise is on a one to one basis. There are no amounts unpaid on any of the shares exercised. There have been no changes to the terms and conditions of these awards, or any other awards since the awards were granted.

For the awards allocated during 2017, the maximum number of shares or performance rights that may vest 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 of performance rights and the value of the equity awards is zero if the equity is fully lapsed.

Name		Granted(1) No.	Grant date	Lapsed No.	Vested (2) No.	Granted $	Lapsed $	Vested $
Executive director								
AG Thorburn	General employee shares	26	11/12/2013	-	26	-	-	884
	Deferred STI rights	2,223	18/02/2015	-	2,223	-	-	64,978
	Deferred STI rights	25,720	9/03/2016	-	25,720	-	-	659,975
	LTI rights	170,794	22/02/2017	-	-	2,989,988	-	-
	Deferred STI rights	58,865	22/02/2017	-	-	1,379,980	-	-
Other senior executives								
AJ Cahill	Deferred STI rights	2,002	18/02/2015	-	2,002	-	-	58,518
	Deferred STI rights	11,692	9/03/2016	-	11,692	-	-	300,017
	LTI rights	57,123	14/12/2016	-	-	1,000,016	-	-
	Deferred STI rights	25,595	22/02/2017	-	-	600,027	-	-
AD Gall	Deferred STI rights	2,951	18/02/2015	-	2,951	-	-	86,258
	Deferred STI rights	5,846	9/03/2016	-	5,846	-	-	150,008
	LTI rights	45,699	14/12/2016	-	-	800,024	-	-
	Deferred STI rights	18,429	22/02/2017	-	-	432,033	-	-

Remuneration report (continued)

Name		Granted[(1)] No.	Grant date	Lapsed No.	Vested [(2)] No.	Granted $	Lapsed $	Vested $
Other senior executives								
AP Hagger	Deferred STI rights	4,106	18/02/2015	-	4,106	-	-	120,018
	Deferred STI rights	12,861	9/03/2016	-	12,861	-	-	330,013
	Retention shares	20,022	11/05/2016	-	20,022	-	-	550,004
	LTI rights	62,836	14/12/2016	-	-	1,100,033	-	-
	Deferred STI rights	28,154	22/02/2017	-	-	660,017	-	-
AJ Healy	General employee shares	26	11/12/2013	-	26	-	-	884
	Deferred STI rights	2,857	18/02/2015	-	2,857	-	-	83,510
	Deferred STI rights	8,862	9/03/2016	-	8,862	-	-	227,399
	General employee shares	34	14/12/2016	-	-	992	-	-
	LTI rights	57,421	14/12/2016	-	-	1,005,238	-	-
	Deferred STI rights	21,118	22/02/2017	-	-	495,072	-	-
GA Lennon	Deferred STI rights	2,936	18/02/2015	-	2,936	-	-	85,819
	Deferred STI shares	5,757	9/03/2016	-	5,757	-	-	143,004
	LTI rights	57,123	14/12/2016	-	-	1,000,016	-	-
	Deferred STI rights	21,330	22/02/2017	-	-	500,042	-	-
A Mentis	Deferred STI rights	3,080	18/02/2015	-	3,080	-	-	90,028
	Deferred STI rights	9,743	9/03/2016	-	9,743	-	-	250,005
	LTI rights	57,123	14/12/2016	-	-	1,000,016	-	-
	Deferred STI rights	25,595	22/02/2017	-	-	600,027	-	-
LN Murphy	Commencement shares	10,011	11/05/2016	-	10,011	-	-	275,002
	LTI rights	39,987	14/12/2016	-	-	700,028	-	-
	Deferred STI rights	14,930	22/02/2017	-	-	350,006	-	-
Former senior executives								
CA Carver	Commencement shares	31,603	15/03/2016	-	31,603	-	-	785,019
	Restricted shares	9,192	24/08/2016	-	9,192	-	-	250,022
	General employee shares	34	14/12/2016	-	-	992	-	-
	Deferred STI shares	7,340	22/02/2017	-	-	192,602	-	-
	Customer Advocacy Incentive shares	4,778	22/02/2017	-	-	150,029	-	-
MR Lawrance	Deferred STI rights	1,802	18/02/2015	-	1,802	-	-	52,672
	Deferred STI shares	6,200	9/03/2016	-	6,200	-	-	154,008
	Restricted shares	9,010	28/10/2016	-	9,010	250,028	-	250,028
	General employee shares	34	14/12/2016	-	-	992	-	-
	Deferred STI shares	6,136	22/02/2017	-	-	161,009	-	-
	Customer Advocacy Incentive shares	4,778	22/02/2017	-	-	150,029	-	-

(1) *The following securities have been granted during 2017:*

a) General employee shares granted to Mr Healy, Ms Carver and Mr Lawrance, in December 2016.The shares vest after a three-year restriction period (In NZ the shares are subject to forfeiture conditions, including resignation).

b) LTI rights granted to senior executives in December 2016 and February 2017 for Mr Thorburn under the Group's LTI program. The total fair value of the award is disclosed in the table above. The fair value for each LTI tranche is shown in Section 6.6. The face value of the LTI award was $29.17 based on the weighted average share price (WASP) at which NAB shares were traded on the ASX in the five trading days from 5 to 9 December 2016 inclusive. The value of performance rights awarded to senior executives was $21.88 after applying the maximum WASP discount (fair value of $21.65) for tranche 1 and $14.59 (fair value of $10.67) for tranche 2 in accordance with the Board's policy to limit the number of LTI rights allocated to senior executives.

c) Deferred STI rights and shares granted in February 2017 (in respect of 2016). The performance rights are granted with half restricted for approximately 14 months after the end of the performance year and the remaining half for approximately 26 months after the end of the performance year. The deferred STI shares are granted to former senior executives with 25% restricted for approximately 14 months after the end of the performance year.

d) Restricted shares granted to Mr Lawrance in October 2016 are restricted for approximately 12 months. The shares are subject to performance and service conditions.

e) Customer Advocacy Incentive shares granted to Ms Carver and Mr Lawrance in February 2017. The shares are restricted until December 2018 and are subject to achievement of 2018 NPS targets and service conditions.

(2) *The following securities have vested during 2017:*

a) General Employee Shares granted to Mr Thorburn and Mr Healy in December 2013, fully vested in December 2016.

b) 2014 Tranche 2 deferred STI rights granted in February 2015, fully vested in December 2016.

c) 2015 Tranche 1 deferred STI rights and shares granted in March 2016, fully vested in November 2016.

d) Retention shares granted to Mr Hagger in May 2016 fully vested in January 2017.The shares were restricted for approximately 8 months and subject to achievement of key project deliverables and service conditions which were fully met.

e) Tranche 2 Commencement shares granted to Ms Carver in March 2016, with 39% fully vested in January 2017 and 32% scheduled to vest in January 2018, subject to performance and service hurdles. The remaining 29% vested in July 2016 prior to Ms Carver becoming a senior executive.

f) Restricted shares allocated to Ms Carver in August 2016 and Mr Lawrance in October 2016 fully vested in July 2017 and August 2017 respectively. The shares were subject to performance and service conditions.

g) Tranche 2 Commencement award shares allocated to Ms Murphy in May 2016 fully vested in September 2017.

Remuneration report (continued)

6.6. Determining the value of equity remuneration

The fair value of shares and performance rights (at grant date) is set out below for grants provided to senior executives during 2017. The determination of the fair value considers factors such as whether the grant has internal or market-based performance hurdles, the expected volatility of NAB's share price, the risk-free interest rate and the expected dividend yield on NAB shares for the life of the grant. This may result in different fair values for awards granted on the same day.

The grant date fair value of shares and performance rights is amortised on a straight line basis over the vesting period and included in each senior executive's disclosed remuneration in accordance with statutory accounting requirements. No performance options have been granted during the year. Shares and performance rights granted during 2017 have a zero exercise price.

		Shares		Performance rights				
Type of allocation	Grant date	Fair value $	Restriction period end	WASP (face value)[1] $	Fair value $	Max. WASP discount amount[2] $	Exercise period From	Exercise period To[3]
Restricted Shares [4]	28 October 2016	27.75	31 August 2017					
General Employee Shares	14 December 2016	29.17	14 December 2019					
Long-Term Incentive [5]	14 December 2016			29.17	21.65	21.88	20 December 2020	15 March 2021
Long-Term Incentive [6]	14 December 2016			29.17	10.67	14.59	20 December 2020	15 March 2021
Deferred Short-Term Incentive	22 February 2017			26.24	24.34		16 November 2017	16 February 2018
Deferred Short-Term Incentive	22 February 2017			26.24	22.61		16 November 2018	16 February 2019
Deferred Short-Term Incentive	22 February 2017	26.24	16 November 2017					
Long-Term Incentive [5] [7]	22 February 2017			29.17	21.65	21.88	20 December 2020	15 March 2021
Long-Term Incentive [6] [7]	22 February 2017			29.17	10.67	14.59	20 December 2020	15 March 2021
Customer Advocacy Incentive [8]	22 February 2017	31.40	20 December 2018					

(1) The face value is the 5 day weighted average share price (at the time of the award) used to determine the fair value.
(2) The maximum WASP discount amount is the unit value used to determine the number of performance rights allocated to each senior executive. Further detail is available in Section 6.2.
(3) The end of the exercise period for each performance rights allocation is also the expiry date.
(4) Restricted shares were provided to Mr Lawrance in respect of his appointment to an acting KMP role during 2016 and 2017. The shares are subject to performance and service conditions.
(5) Relates to the 2016 LTI cash ROE growth performance hurdle.
(6) Relates to the 2016 LTI relative TSR performance hurdle.
(7) The Group CEO's LTI allocation was approved by shareholders at the December 2016 AGM.
(8) Ms Carver and Mr Lawrance received shares under the Customer Advocacy Incentive award. The shares are subject to achievement of NPS targets and service conditions.

6.7. Deferred STI and LTI grants to be awarded during 2018

NAB intends to grant deferred STI and LTI performance rights to senior executives (including the Group CEO, subject to shareholder approval) in December 2017 after the 2017 AGM. The number of deferred STI rights and LTI performance rights allocated to each senior executive (excluding the Group CEO's LTI performance rights) is calculated using a fair value based on the five day WASP from 25 to 29 September 2017. The number of LTI performance rights to be allocated to the Group CEO is calculated using the five day WASP from 25 to 29 September 2017 (or face value). Details of the allocations are:

Type of allocation	Intended grant date	WASP (face value)[1] $	Fair value $	Max. WASP discount amount[2] $	Exercise period From	Exercise period To[3]
Group CEO: Long-Term Incentive [4]	19 December 2017	31.39	n/a	n/a	20 December 2021	15 March 2022
Long-Term Incentive - Tranche 1 [5]	19 December 2017	31.39	23.55	23.54	20 December 2021	15 March 2022
Long-Term Incentive - Tranche 2 [6]	19 December 2017	31.39	12.88	15.70	20 December 2021	15 March 2022
Deferred Short-Term Incentive - Tranche 1 [7]	19 December 2017	31.39	29.07	n/a	15 November 2018	15 February 2019
Deferred Short-Term Incentive - Tranche 2 [7]	19 December 2017	31.39	27.16	n/a	15 November 2019	15 February 2020

(1) The face value is the 5 day weighted average share price for 25 September to 29 September 2017. It is used to determine the fair value.
(2) The maximum WASP discount amount is the unit value used to determine the number of performance rights allocated to each senior executive. Further detail is available in Section 6.2.
(3) The end of the exercise period for each performance rights allocation is also the expiry date.
(4) The number of LTI performance rights granted to the Group CEO (subject to approval by shareholders at the December 2017 AGM) is based on face value.
(5) The number of LTI performance rights granted to the other senior executives for the cash ROE growth performance hurdle is based on the fair value.
(6) The number of LTI performance rights granted to the other senior executives for the relative TSR performance hurdle is based on the maximum WASP discount amount.
(7) The number of deferred STI rights granted to the other senior executives is based on the fair value.

Remuneration report (continued)

The number of deferred STI and LTI performance rights to be allocated to each senior executive (including the Group CEO, subject to shareholder approval) in December 2017 and their total fair value and face value based on the 5 day WASP from 25 September to 29 September 2017 is:

Name	Type of allocation	Rights[(1)] No.	Total award fair value $	Total award face value $
Executive director				
AG Thorburn	Deferred STI	34,807	977,469	1,092,592
	LTI	95,252	n/a	2,989,960
Other senior executives				
MB Baird	Deferred STI	8,111	227,778	254,604
	LTI	63,695	1,092,242	1,999,386
AJ Cahill	Deferred STI	18,161	510,007	570,074
	LTI	63,695	1,092,242	1,999,386
SJ Cook	Deferred STI	3,304	92,785	103,713
	LTI	29,725	509,724	933,068
AD Gall	Deferred STI	11,805	331,515	370,559
	LTI	48,302	828,285	1,516,200
AP Hagger	Deferred STI	17,093	480,015	536,549
	LTI	63,695	1,092,242	1,999,386
AJ Healy	Deferred STI	20,720	581,870	650,401
	LTI	53,710	921,019	1,685,957
GA Lennon	Deferred STI	15,135	425,029	475,088
	LTI	53,080	910,216	1,666,181
A Mentis	Deferred STI	23,503	660,024	737,759
	LTI	63,695	1,092,242	1,999,386
LN Murphy	Deferred STI	12,108	340,023	380,070
	LTI	42,464	728,177	1,332,945
PF Wright	Deferred STI	19,675	552,524	617,598
	LTI	69,003	1,183,261	2,166,004

(1) *To be granted to senior executives and the Group CEO (subject to shareholder approval) in December 2017.*

The actual value of the award for each senior executive will depend on the level of achievement against the performance hurdles, the corresponding proportion of the award that vests and NAB's share price at the time of vesting which is November 2018 and November 2019 for the deferred STI, and December 2021 for the LTI. The minimum amount of the deferred STI and LTI is $0 if the award does not vest, and the maximum is the total award face value shown in the table above, subject to NAB's share price at the time of vesting.

6.8. Performance rights holdings

No performance options or performance rights are granted to the Group CEO's or other senior executives' related parties. No performance options are currently held by the Group CEO or the other senior executives. No performance rights held by the Group CEO or other senior executives, were vested but not exercisable at 30 September 2017.

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[(2)] No.	Vested during year No.	Vested and exercisable at end of year No.
Executive director							
AG Thorburn	679,958	229,659	(27,943)	-	881,674	27,943	-
Other senior executives							
AJ Cahill	164,968	82,718	(13,694)	-	233,992	13,694	-
AD Gall	138,986	64,128	(8,797)	-	194,317	8,797	-
AP Hagger	339,895	90,990	(16,967)	-	413,918	16,967	-
AJ Healy	193,543	78,539	(11,719)	-	260,363	11,719	-
GA Lennon	51,799	78,453	(2,936)	-	127,316	2,936	-
A Mentis	165,223	82,718	(12,823)	-	235,118	12,823	-
LN Murphy	-	54,917	-	-	54,917	-	-
Former senior executives							
MR Lawrance	32,583	-	(1,802)	-	30,781	1,802	-

(1) *Balance may include performance rights granted prior to individuals becoming KMP. For senior executives who became KMP during 2017, the balance is as at the date they became KMP.*

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

Remuneration report (continued)

6.9. Senior executives' share ownership

The number of NAB shares held (directly and nominally) by each senior executive 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	117,990	-	27,943	9,191	155,124
Other senior executives					
AJ Cahill	58,146	-	13,694	(40,883)	30,957
AD Gall	91,269	-	8,797	(8,797)	91,269
AP Hagger	139,009	-	16,967	(130,000)	25,976
AJ Healy	30,889	34	11,719	-	42,642
GA Lennon	48,829	-	2,936	-	51,765
A Mentis	35,441	-	12,823	-	48,264
LN Murphy	30,944	-	-	1,128	32,072
Former senior executives					
CA Carver	66,963	12,152	-	(31,603)	47,512
MR Lawrance	53,833	19,958	1,802	-	75,593

(1) *Balance may include shares held prior to individuals becoming KMP. For senior executives who became KMP during 2017, the balance is as at the date they became KMP.*
(2) *For former senior executives, the balance is as at the date they cease being KMP.*

There are no other holdings or transactions involving equity instruments, other than equity-based compensation, with senior executives of NAB and the Group or their related parties.

6.10. Senior executive contract terms

All senior executives are employed on contracts with no fixed term. The following table shows the position and contract terms for individuals who were senior executives as at 30 September 2017.

		Termination arrangements[(1)]		
		Notice period (weeks)		Termination payment[(2)]
Name	**Position**	**Senior executive**	**Company**	**$**
Executive director				
AG Thorburn	Group Chief Executive Officer	26	26	1,045,455
Other senior executives				
MB Baird	Chief Customer Officer - Corporate and Institutional Banking	1	26	545,455
AJ Cahill	Chief Operating Officer	4	26	545,455
SJ Cook	Chief Legal and Commercial Counsel	1	26	363,636
AD Gall	Chief Risk Officer	12	26	590,909
AP Hagger	Chief Customer Officer - Consumer Banking and Wealth	4	26	545,455
AJ Healy	Chief Executive Officer Bank of New Zealand	13	13	253,076
GA Lennon	Chief Financial Officer	4	26	454,545
A Mentis	Chief Customer Officer - Business and Private Banking	4	26	545,455
LN Murphy	Chief People Officer	2	26	363,636
PF Wright	Chief Technology and Operations Officer	1	26	590,909

(1) *Employment may be terminated by either the senior executive or NAB giving the applicable notice. Recent employee notice periods reflect a commercial decision to not spend on excessive termination payments when NAB has strong succession plans in place.*
(2) *Calculated as the company notice period multiplied by either the current annualised fixed remuneration or Total Remuneration Package (TRP) (fixed remuneration less employer superannuation). These are paid, subject to compliance with the law, if NAB terminates the 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 fixed remuneration or TRP if NAB were to give notice. The value does not include any value for equity holdings which may be retained, or other statutory payments that would be payable on termination.*

Remuneration report (continued)

Section 7 - Non-executive director remuneration

7.1. Fee policy and pool

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

The maximum aggregate fee pool for non-executive directors is $4.5 million per annum which was approved at NAB's February 2008 Annual General Meeting.

Non-executive director fees are generally reviewed annually, including against fee levels paid to board members of other major Australian corporations. As a result of the 2017 fee review, the Board decided not to increase non-executive director Board or Committee fees.

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

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

[(1)] *The Board established a fee for the Nomination & Governance Committee effective 17 December 2016. The Board Chairman's fee is inclusive of Dr Henry's participation as Chairman of the Nomination & Governance Committee.*

7.2. Statutory remuneration

The fees paid to the non-executive directors in relation to the 2017 financial year are set out below:

		Short-term benefits	Post-employment benefits	
		Cash salary and fees[(1)]	Superannuation[(2)]	Total
Name		$	$	$
Non-executive directors				
KR Henry (Chairman)	**2017**	**770,276**	**19,724**	**790,000**
	2016	670,213	19,385	689,598
DH Armstrong	**2017**	**304,746**	**19,724**	**324,470**
	2016	316,467	35,077	351,544
PW Chronican [(3)]	**2017**	**403,904**	**19,724**	**423,628**
	2016	110,731	9,061	119,792
PK Gupta [(4)]	**2017**	**629,841**	**19,724**	**649,565**
	2016	623,025	19,269	642,294
AJ Loveridge	**2017**	**275,276**	**19,724**	**295,000**
	2016	182,821	39,904	222,725
GC McBride	**2017**	**235,882**	**19,724**	**255,606**
	2016	223,115	19,385	242,500
DA McKay [(5)]	**2017**	**358,572**	**146,166**	**504,738**
	2016	296,327	33,793	330,120
AKT Yuen	**2017**	**286,393**	**6,107**	**292,500**
	2016	284,041	5,959	290,000
Former non-executive directors				
DT Gilbert (for part year)	**2017**	**55,551**	**4,904**	**60,455**
	2016	297,115	19,385	316,500
JS Segal (for part year)	**2017**	**56,081**	**4,904**	**60,985**
	2016	278,740	19,385	298,125
MA Chaney (for part year)	2016	159,774	4,827	164,601
PJ Rizzo (for part year)	2016	58,463	9,133	67,596
Total	**2017**	**3,376,522**	**280,425**	**3,656,947**
Total	2016	3,500,832	234,563	3,735,395

[(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 2017.*

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

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

[(4)] *Mr Gupta received director fees in his capacity as a director on the board of a number of NAB Group subsidiaries.*

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

Remuneration report (continued)

7.3. Minimum shareholding policy

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

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

7.4. Non-executive directors' share ownership

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

Name	Balance at beginning of year[(1)] No.	Acquired No.	Other changes during year No.	Balance at end of year[(2)] No.
Non-executive directors				
KR Henry	6,860	1,500	-	8,360
DH Armstrong	13,419	346	-	13,765
PW Chronican	30,000	-	-	30,000
PK Gupta	6,480	-	-	6,480
AJ Loveridge	9,000	-	-	9,000
GC McBride	3,960	1,000	-	4,960
DA McKay	2,000	6,000	-	8,000
AKT Yuen	10,464	-	-	10,464
Former non-executive directors				
DT Gilbert	20,726	-	-	20,726
JS Segal	17,184	-	-	17,184

(1) *Balance may include shares held prior to individuals becoming KMP. For non-executive directors who became KMP during 2017, the balance is as at the date they became KMP.*

(2) *For former non-executive directors, the balance is as at the date they cease being KMP.*

7.5. Other equity instrument holdings

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

National Income Securities	Balance at beginning of year[(1)] No.	Changes during year No.	Balance at end of year[(2)] No.
Non-executive directors			
PW Chronican	982	-	982
Former non-executive directors			
DT Gilbert	1,253	-	1,253
JS Segal	180	-	180

(1) *Balance at beginning of the financial year (1 October 2016) or the date of commencement as a KMP.*

(2) *Balance at end of the financial year (30 September 2017) or the date of cessation as a KMP.*

Remuneration report (continued)

Section 8 - Loans and other transactions

8.1. Loans

Loans made to directors of NAB are made in the ordinary course of business on terms equivalent to those that prevail in arms' 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).

Aggregated loans to KMP and their related parties [(1)]

NAB and the Group		Balance at beginning of year[(1)]	Interest charged	Interest not charged	Write-off	Balance at end of year[(2)]
KMP	Normal	18,097,274	447,281	-	-	16,551,449
	Employee	2,746,455	89,485	-	-	1,994,890
Other related parties [(3)]	Normal	44,637,384	557,161	-	-	42,924,465
	Employee	-	-	-	-	-

(1) *Balance at beginning of the financial year (1 October 2016) or the date of commencement as a KMP.*

(2) *Balance at end of the financial year (30 September 2017) or the date of cessation as a KMP.*

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

Aggregate loans to KMP and their related parties above $100,000 at any time during 2017 [(1)]

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[(3)] $	KMP highest indebtedness during year[(4)] $
Executive director							
AG Thorburn	Employee	1,840	21	-	-	3,203	31,956
	Normal	-	9,977	-	-	-	
Other senior executives							
MB Baird	Employee	25,086	644	-	-	1,702	
	Normal	4,565,000	92,625	-	-	4,520,806	3,847,872
AJ Cahill	Employee	1,480,642	47,432	-	-	980,000	
	Normal	1,937,800	57,386	-	-	594,092	3,457,034
SJ Cook	Normal	16,902	16,393	-	-	1,215,250	1,286,266
AD Gall	Normal	6,140,733	208,847	-	-	5,966,992	2,606,446
AJ Healy	Normal	2,080,834	92,010	-	-	1,963,221	23,952
GA Lennon	Employee	1,206,947	41,389	-	-	988,759	1,231,947
	Normal	6,233	20	-	-	5,367	
A Mentis	Employee	12,319	-	-	-	14,283	
	Normal	2,881,467	120,224	-	-	2,050,826	2,586,134
LN Murphy	Employee	19,621	-	-	-	2,375	
	Normal	2,696,538	88,970	-	-	2,453,479	2,736,538
Non-executive director							
GC McBride	Normal	1,182,060	27,944	-	-	1,151,661	1,211,992
Former senior executives							
CA Carver	Normal	-	18,246	-	-	2,393,343	529,559
MR Lawrance	Normal	2,908,159	50,147	-	-	2,880,053	2,945,376
Former non-executive director							
DT Gilbert [(5)]	Normal	38,306,793	221,479	-	-	34,252,740	450,000

(1) *Balance at beginning of the financial year (1 October 2016) or the date of commencement as a KMP.*

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

(3) *Balance at end of the financial year (30 September 2017) or the date of cessation as a KMP.*

(4) *Represents aggregate highest indebtedness of the KMP during 2017. All other items in this table relate to the KMP and their related parties.*

(5) *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.*

(1) *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 2016, the balances at the beginning of 2017 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.*

Remuneration report (continued)

8.2. Other transactions

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

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

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 2017

Mr Andrew G Thorburn
Group Chief Executive Officer
14 November 2017

Corporate governance

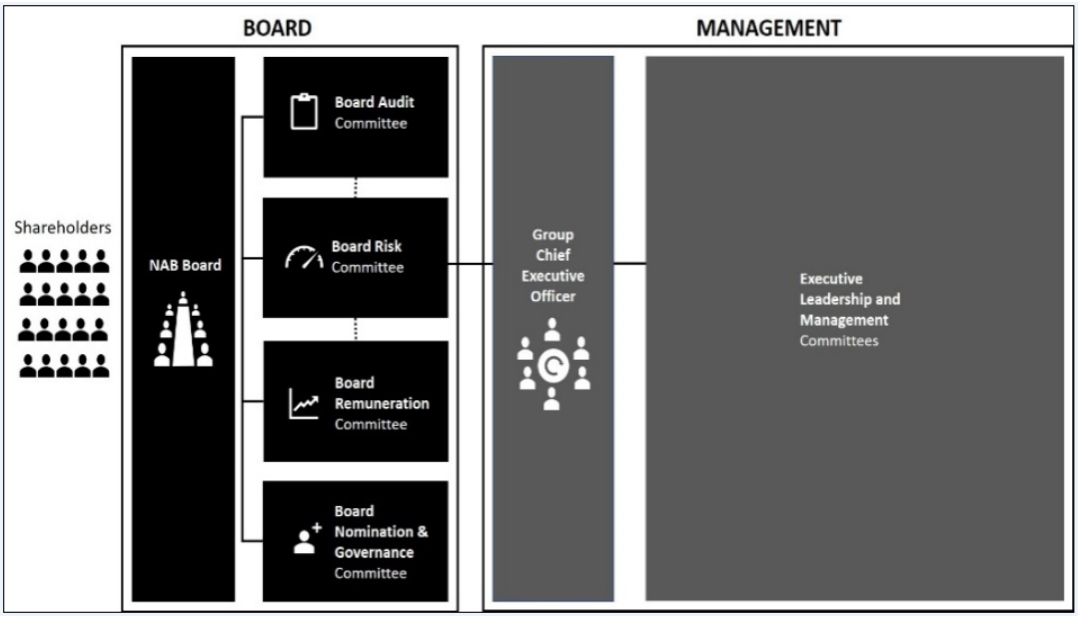
Our approach

NAB is committed to the highest standards of corporate governance and has in place a governance framework that provides a foundation for effective decision making and accountability, supporting the creation of value for our stakeholders.

Further details of corporate governance at NAB, and confirmation of NAB's compliance in 2017 with the 3rd edition of the ASX Corporate Governance Principles and Recommendations, are contained in the 2017 Corporate Governance Statement and Appendix 4G which are published separately in the corporate governance section of the website at www.nab.com.au/about-us/corporate-governance.

Board responsibilities and performance

The Board is responsible, and accountable to shareholders, for the overall governance of the Group. To support the Board in its role, it has four standing committees that focus on specific areas. From time to time it also establishes other committees to assist it in particular areas. More information on the functions and responsibilities of the Board and its Committees is contained in the 2017 Corporate Governance Statement. Details of the number of meetings held by the Board and its Committees in 2017, and attendance by directors, are contained in the Report of the Directors.



The Board delegates authority for the day-today operation of the business to the Group CEO and other executive leaders. Delegations are actively monitored, and regularly reviewed and reconfirmed.

Directors' independence and capacity are regularly assessed. The Board is satisfied that each non-executive director who has served during 2017 continued to be independent. After taking into consideration the existing workload of directors, the Board has concluded that each non-executive director has sufficient capacity to undertake the duties expected of a director of NAB.

The Board conducts an annual assessment of its performance and effectiveness, as well as of its Committees and individual directors, to support continuous improvement. The annual assessment was conducted in 2017.

Board composition and diversity

The Board, with the support of the Nomination & Governance Committee, actively reviews its composition to ensure it has an appropriate mix of skills, experience and diversity for continuing effectiveness. Two long standing directors retired following the 2016 AGM, and as at 30 September 2017, there are eight non-executive directors. Subsequent to the end of the reporting period, a new female non-executive director was appointed to the Board in November 2017.

The Nomination & Governance Committee uses a matrix to assess the skills and experience of each director and the combined capability of the Board. The skills matrix, and information about the Board's tenure, age profile and gender diversity, are contained in the 2017 Corporate Governance Statement.

Shareholder engagement

NAB makes increasing use of technology to communicate with all stakeholders by webcasting significant market briefings and events and through the Investor Relations mobile app. Shareholders will be invited to submit questions in advance of the 2017 Annual General Meeting to help the Board understand and address areas of interest or concern.

Financial Report

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Income statements

		Group		Company	
For the year ended 30 September		2017[(1)]	2016[(1)]	2017	2016
	Note	$m	$m	$m	$m
Interest income	3	**27,403**	27,629	**26,101**	26,724
Interest expense	3	**(14,221)**	(14,699)	**(16,467)**	(17,211)
Net interest income		**13,182**	12,930	**9,634**	9,513
Other income	4	**4,842**	5,192	**5,023**	5,798
Operating expenses	5	**(8,539)**	(8,331)	**(7,207)**	(12,323)
Charge to provide for bad and doubtful debts	5	**(824)**	(813)	**(731)**	(702)
Profit before income tax		**8,661**	8,978	**6,719**	2,286
Income tax expense	7	**(2,480)**	(2,553)	**(1,744)**	(1,767)
Net profit for the year from continuing operations		**6,181**	6,425	**4,975**	519
Net (loss) after tax for the year from discontinued operations	41	**(893)**	(6,068)	**-**	-
Net profit for the year		**5,288**	357	**4,975**	519
Profit attributable to non-controlling interests		**3**	5	**-**	-
Net profit attributable to owners of NAB		**5,285**	352	**4,975**	519

		cents	cents
Basic earnings per share	6	**194.7**	8.8
Diluted earnings per share	6	**189.1**	15.5

		cents	cents
Basic earnings per share from continuing operations	6	**228.2**	242.4
Diluted earnings per share from continuing operations	6	**220.1**	232.7

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

Statements of comprehensive income

For the year ended 30 September	Note	Group 2017[1] $m	Group 2016[1] $m	Company 2017 $m	Company 2016 $m
Net profit for the year from continuing operations		**6,181**	6,425	**4,975**	519
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk		**11**	(113)	**55**	(131)
Revaluation of land and buildings		**1**	(1)	**-**	-
Currency adjustments on translation of other contributed equity		**4**	(183)	**-**	-
Equity instruments at fair value through other comprehensive income reserve:					
Revaluation losses		**(1)**	(51)	**(8)**	(52)
Tax on items transferred directly to equity		**31**	23	**22**	10
Total items that will not be reclassified to profit or loss		**46**	(325)	**69**	(173)
Items that will be reclassified subsequently to profit or loss					
Cash flow hedges:					
(Losses) / gains on cash flow hedging instruments		**(115)**	38	**(70)**	76
Losses / (gains) transferred to the income statement		**1**	(6)	**1**	(6)
Foreign currency translation reserve:					
Currency adjustments on translation of foreign operations, net of hedging		**(273)**	249	**(32)**	(49)
Transfer to the income statement on disposal of foreign operations		**(10)**	-	**-**	-
Debt instruments at fair value through other comprehensive income reserve:					
Revaluation gains		**25**	14	**25**	14
Gains from sale transferred to the income statement		**(3)**	(16)	**(3)**	(16)
Change in loss allowance on debt instruments at fair value through other comprehensive income		**(1)**	4	**(1)**	4
Tax on items transferred directly to equity		**17**	22	**5**	41
Total items that will be reclassified subsequently to profit or loss		**(359)**	305	**(75)**	64
Other comprehensive income for the year, net of income tax		**(313)**	(20)	**(6)**	(109)
Total comprehensive income for the year from continuing operations		**5,868**	6,405	**4,969**	410
Net loss for the year from discontinued operations	41	**(893)**	(6,068)	**-**	-
Other comprehensive income for the year from discontinued operations, net of income tax		**-**	979	**-**	-
Total comprehensive income for the year		**4,975**	1,316	**4,969**	410
Attributable to owners of NAB		**4,972**	1,311	**4,969**	410
Attributable to non-controlling interests		**3**	5	**-**	-

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

Balance sheets

As at 30 September	Note	Group 2017 $m	Group 2016 $m	Company 2017 $m	Company 2016 $m
Assets					
Cash and liquid assets	10	**43,826**	30,630	**42,152**	28,717
Due from other banks	10	**37,066**	45,236	**35,030**	43,359
Trading derivatives (1)	11	**29,137**	43,146	**30,383**	42,467
Trading securities	12	**50,954**	45,971	**45,637**	41,513
Debt instruments at fair value through other comprehensive income	13	**42,131**	40,689	**42,029**	40,580
Other financial assets at fair value	14	**16,058**	21,496	**11,825**	14,831
Hedging derivatives (1)	15	**3,892**	6,741	**3,816**	6,319
Loans and advances	16	**540,125**	510,045	**468,277**	441,321
Due from customers on acceptances		**6,786**	12,205	**6,786**	12,205
Property, plant and equipment		**1,315**	1,423	**476**	520
Due from controlled entities		**-**	-	**109,163**	119,414
Investments in controlled entities	31	**-**	-	**8,673**	9,493
Goodwill and other intangible assets	22	**5,601**	5,302	**2,361**	2,093
Deferred tax assets	9	**1,988**	1,925	**1,242**	1,172
Other assets (1) (2)	23	**9,446**	11,901	**6,666**	9,395
Total assets		**788,325**	776,710	**814,516**	813,399
Liabilities					
Due to other banks	10	**36,683**	43,903	**35,201**	42,649
Trading derivatives (1)	11	**27,187**	41,559	**27,065**	38,901
Other financial liabilities at fair value	18	**29,631**	33,224	**5,930**	5,408
Hedging derivatives (1)	15	**1,674**	3,402	**3,859**	6,701
Deposits and other borrowings	19	**500,604**	459,714	**450,010**	416,241
Current tax liabilities	8	**230**	297	**71**	248
Provisions	24	**1,961**	1,432	**1,734**	1,157
Due to controlled entities		**-**	-	**107,601**	117,399
Bonds, notes and subordinated debt	20	**124,871**	127,942	**121,315**	123,226
Other debt issues	21	**6,187**	6,248	**6,187**	6,248
Other liabilities (1)	25	**7,980**	7,674	**6,942**	6,669
Total liabilities		**737,008**	725,395	**765,915**	764,847
Net assets		**51,317**	51,315	**48,601**	48,552
Equity					
Contributed equity	26	**34,627**	34,285	**32,866**	32,524
Reserves	27	**237**	629	**190**	309
Retained profits	28	**16,442**	16,378	**15,545**	15,719
Total equity (parent entity interest)		**51,306**	51,292	**48,601**	48,552
Non-controlling interest in controlled entities		**11**	23	**-**	-
Total equity		**51,317**	51,315	**48,601**	48,552

(1) *The 2016 comparative information has been restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).*

(2) *The 2016 comparative information has been restated following a reclassification of investments relating to life insurance business into other assets.*

Cash flow statements

For the year ended 30 September [1]	Note	Group 2017 $m	Group 2016 $m	Company 2017 $m	Company 2016 $m
Cash flows from operating activities					
Interest received		**27,176**	28,338	**25,761**	26,795
Interest paid		**(14,315)**	(15,592)	**(16,459)**	(17,413)
Dividends received		**36**	21	**2,035**	2,264
Life insurance:					
Premiums and other revenue received		**76**	9,426	**-**	-
Investment revenue received		**5**	1,797	**-**	-
Policy payments and commission expense		**(42)**	(9,490)	**-**	-
Net trading income (paid) / received		**(3,198)**	(3,351)	**(2,471)**	(1,583)
Other operating income received		**4,388**	3,956	**2,029**	2,318
Operating expenses paid		**(7,868)**	(10,543)	**(5,858)**	(6,490)
Income tax paid		**(2,544)**	(3,148)	**(1,825)**	(2,812)
Cash flows from operating activities before changes in operating assets and liabilities		**3,714**	1,414	**3,212**	3,079
Changes in operating assets and liabilities arising from cash flow movements					
Net (increase) / decrease in:					
Deposits with central banks and other regulatory authorities		**281**	681	**281**	696
Trading securities		**(6,488)**	(4,197)	**(5,677)**	(3,554)
Other financial assets designated at fair value		**4,762**	6,839	**2,678**	5,186
Loans and advances		**(33,401)**	(45,882)	**(27,714)**	(30,861)
Due from customers on acceptances		**5,438**	7,249	**5,436**	7,243
Other assets		**1,041**	957	**1,695**	265
Net increase / (decrease) in:					
Deposits and other borrowings		**43,430**	37,920	**34,796**	28,199
Other financial liabilities designated at fair value [2]		**(6,575)**	300	**(46)**	(958)
Other liabilities		**(1,721)**	3,548	**(1,850)**	1,219
Net movements in life insurance assets and liabilities		**(1)**	(480)	**-**	-
Net funds advanced to and receipts from other banks		**(902)**	2,521	**(881)**	2,747
Net movements in derivative assets and liabilities		**3,639**	3,590	**2,632**	759
Changes in operating assets and liabilities arising from cash flow movements		**9,503**	13,046	**11,350**	10,941
Net cash provided by operating activities	30(a)	**13,217**	14,460	**14,562**	14,020
Cash flows from investing activities					
Movement in debt instruments at fair value through other comprehensive income					
Purchases		**(23,392)**	(20,077)	**(23,337)**	(19,959)
Proceeds from disposal and maturity		**21,633**	21,088	**21,573**	20,855
Movement in other debt and equity instruments					
Purchases		**(4)**	(2,007)	**(7)**	(1,876)
Proceeds from disposal and maturity		**172**	3,631	**-**	3,626
Net movement in amounts due from controlled entities		**-**	-	**311**	2,841
Net movement in shares in controlled entities		**-**	-	**688**	(695)
Purchase of controlled entities and business combinations, net of cash acquired		**-**	(2)	**-**	-
Proceeds from sale of controlled entities, net of cash disposed		**2,255**	(11,780)	**2,206**	642
Proceeds on sale of associates and joint ventures, net of cash disposed		**37**	-	**-**	-
Purchase of property, plant, equipment and software		**(1,028)**	(875)	**(739)**	(594)
Proceeds from sale of property, plant, equipment and software, net of costs		**14**	52	**(1)**	8
Net cash (used in) / provided by investing activities		**(313)**	(9,970)	**694**	4,848
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt [2]		**(32,426)**	(29,543)	**(29,868)**	(26,427)
Proceeds from issue of bonds, notes and subordinated debt, net of costs [2]		**37,318**	43,521	**32,438**	36,884
Repayments of other contributed equity, net of costs		**(400)**	-	**(400)**	-
Proceeds from other debt issues, net of costs		**-**	111	**-**	667
Repayments of other debt issues		**(73)**	-	**(73)**	-
Dividends and distributions paid (excluding dividend reinvestment plan)		**(4,750)**	(4,593)	**(4,707)**	(4,633)
Net cash (used in) / provided by financing activities		**(331)**	9,496	**(2,610)**	6,491
Net increase in cash and cash equivalents		**12,573**	13,986	**12,646**	25,359
Cash and cash equivalents at beginning of period		**27,960**	20,528	**24,850**	1,970
Effects of exchange rate changes on balance of cash held in foreign currencies		**(733)**	(6,554)	**(665)**	(2,479)
Cash and cash equivalents at end of year	30(b)	**39,800**	27,960	**36,831**	24,850

(1) The cash flow statements include cash flows of discontinued operations for the period up to the date on which the Group lost control of those operations, and cash flows after the loss of control that are directly related to the disposal. Details of these cash flows are included in Note 41 Discontinued operations.

(2) Cash flows relating to bonds, notes and subordinated debt at fair value that occurred in the year ended 30 September 2016 have been reclassified from other financial liabilities designated at fair value, to repayments of and proceeds from bonds, notes and subordinated debt.

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 2016						
Balance at 1 October 2015	34,651	(362)	21,205	55,494	19	**55,513**
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:						
Contributions by and distributions to owners						
Issue of ordinary shares	596	-	-	596	-	**596**
Treasury shares adjustment relating to life insurance business [4]	1,517	-	-	1,517	-	**1,517**
Transfer from / (to) retained profits	-	(91)	91	-	-	**-**
Transfer from equity-based compensation reserve	166	(166)	-	-	-	**-**
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	(2,645)	-	-	(2,645)	-	**(2,645)**
Released on divestment of discontinued operations	-	(6)	6	-	-	**-**
Changes in ownership interests [5]						
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**
Year to 30 September 2017						
Net profit for the year from continuing operations	-	-	6,178	6,178	3	**6,181**
Net loss for the year from discontinued operations	-	-	(893)	(893)	-	**(893)**
Other comprehensive income for the year from continuing operations	-	(356)	43	(313)	-	**(313)**
Total comprehensive income for the year	-	(356)	5,328	4,972	3	**4,975**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	569	-	-	569	-	**569**
Redemption of National Capital Instruments [6]	(397)	-	(3)	(400)	-	**(400)**
Transfer from / (to) retained profits	-	(53)	53	-	-	**-**
Transfer from equity-based compensation reserve	170	(170)		-		**-**
Equity-based compensation	-	187	-	187	-	**187**
Dividends paid	-	-	(5,216)	(5,216)	(5)	**(5,221)**
Distributions on other equity instruments	-	-	(98)	(98)	-	**(98)**
Changes in ownership interests [5]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(10)	**(10)**
Balance at 30 September 2017	**34,627**	**237**	**16,442**	**51,306**	**11**	**51,317**

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

(2) Refer to Note 27 Reserves for further details.

(3) Refer to Note 28 Retained profits for further details.

(4) Relates to shares in NAB previously held by Wealth's life insurance business which are no longer held by a controlled entity of the Group.

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

(6) National capital instruments were fully redeemed on 4 October 2016.

Statements of changes in equity (continued)

Company	Contributed equity[(1)] $m	Reserves[(2)] $m	Retained profits[(3)] $m	Total equity $m
Year to 30 September 2016				
Balance at 1 October 2015	34,407	340	20,470	**55,217**
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 / (to) retained profits	-	(90)	90	**-**
Transfer from equity-based compensation reserve	166	(166)	-	**-**
Capital distribution on CYBG demerger	(2,645)	-	-	**(2,645)**
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**
Year to 30 September 2017				
Net profit for the year from continuing operations	-	-	4,975	**4,975**
Other comprehensive income for the year from continuing operations	-	(83)	77	**(6)**
Total comprehensive income for the year	-	(83)	5,052	**4,969**
Transactions with owners, recorded directly in equity:				
Contributions by and distributions to owners				
Issue of ordinary shares	569	-	-	**569**
Redemption of National Capital Instruments[(4)]	(397)	-	(3)	**(400)**
Transfer from / (to) retained profits	-	(53)	53	**-**
Transfer from equity-based compensation reserve	170	(170)		**-**
Equity-based compensation	-	187	-	**187**
Dividends paid	-	-	(5,216)	**(5,216)**
Distributions on other equity instruments	-	-	(60)	**(60)**
Balance at 30 September 2017	**32,866**	**190**	**15,545**	**48,601**

(1) *Refer to Note 26 Contributed equity for further details.*
(2) *Refer to Note 27 Reserves for further details.*
(3) *Refer to Note 28 Retained profits for further details.*
(4) *National capital instruments were fully redeemed on 4 October 2016.*

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 2017 was authorised for issue on 14 November 2017 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 27 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

In 2014 the Group early adopted AASB 9 "Financial Instruments" (2014). The Group elected an accounting policy choice under AASB 9 to continue to apply the hedge accounting requirements under AASB 139 "Financial Instruments: Recognition and measurement".

(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 19 Deposits and other borrowings, Note 20 Bonds, notes and subordinated debt, Note 21 Other debt issues* and *Note 25 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.

1 Principal accounting policies (continued)

(ii) Financial assets measured at amortised cost

Debt instruments

Investments in debt instruments are measured at amortised cost 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 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 10 Cash and cash equivalents, Note 16 Loans and advances* and *Note 23 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 13 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 23 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 11 Trading derivative assets and liabilities* and *Note 12 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 14 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 18 Other financial liabilities at fair value*.

(v) Derivative financial instruments and hedge accounting

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

All derivatives are recognised 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 11 Trading derivative assets and liabilities* and *Note 15 Hedge accounting, including 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

The Group collectively assesses ECLs on exposures where there has not been a significant increase in credit risk since initial recognition and that were not credit impaired upon origination. For these exposures, the Group recognises as a collective provision the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months. The Group does not conduct an individual assessment of exposures in Stage 1 as there is no evidence of one or more events occurring that would have a detrimental impact on estimated future cash flows.

Stage 2: Lifetime ECL – not credit impaired

The Group collectively assesses ECLs on exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired. For these exposures, the Group recognises as a collective provision a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset). Similar to Stage 1, the Group does not conduct an individual assessment on Stage 2 exposures as the increase in credit risk is not, of itself, an event that could have a detrimental impact on future cash flows.

Stage 3: Lifetime ECL – credit impaired

The Group identifies, both collectively and individually, ECLs on those exposures that are assessed as credit impaired based on whether 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 as a collective or specific provision, 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 remaining expected life from 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 34 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 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 34 Financial risk management*. For details on the effect of modifications of loans on the measurement of ECL refer to *Note 17 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 from the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Notes to the financial statements

1 Principal accounting policies (continued)

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 34 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 including forward looking information, 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 17 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 22 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.

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 in the Group. Where appropriate, provisions have been made. The aggregate of potential liabilities in respect thereof cannot be accurately assessed. Refer to *Note 32 Contingent liabilities and credit commitments* for further information.

(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).

1 Principal accounting policies (continued)

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 32 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.

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 focussed on the specific services provided for the economic, competitive and regulatory environment in which it operates.

Following the implementation of the organisational restructure effective from 1 August 2016, the Group's business now consists of the following reportable segments: Consumer Banking and Wealth, Business and Private Banking, Corporate and Institutional Banking and NZ Banking. In addition, information on Corporate Functions and Other is included in this note to reconcile to Group information. The Group evaluates reportable segments' performance on the basis of cash earnings (refer to Information about Cash Earnings on page 72).

Major customers

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

Reportable segment information

For the year ended 30 September 2017 [3]	Consumer Banking and Wealth $m	Business and Private Banking $m	Corporate and Institutional Banking $m	NZ Banking $m	Corporate Functions and Other [1] [2] $m	Eliminations $m	Group Cash Earnings $m
Net interest income	3,884	5,257	1,972	1,586	467	-	13,166
Other income	1,597	1,062	1,368	530	198	(26)	4,729
Net operating income	5,481	6,319	3,340	2,116	665	(26)	17,895
Operating expenses	(2,910)	(2,084)	(1,236)	(827)	(604)	26	(7,635)
Underlying profit	2,571	4,235	2,104	1,289	61	-	10,260
Charge to provide for doubtful debts	(267)	(180)	(37)	(67)	(259)	-	(810)
Cash earnings / (deficit) before tax and distributions	2,304	4,055	2,067	1,222	(198)	-	9,450
Income tax expense	(671)	(1,214)	(532)	(340)	47	-	(2,710)
Cash earnings / (deficit) before distributions	1,633	2,841	1,535	882	(151)	-	6,740
Distributions	-	-	-	-	(98)	-	(98)
Cash earnings / (deficit)	**1,633**	**2,841**	**1,535**	**882**	**(249)**	**-**	**6,642**

(1) *Corporate Functions & Other includes Treasury, NAB UK CRE, Technology and Operations and Other Support units.*
(2) *Balance reflects Nautilus Insurance premiums booked and eliminated all within Corporate Functions and Other.*
(3) *Information is presented on a continuing operations basis.*

For the year ended 30 September 2016 [3]	Consumer Banking and Wealth $m	Business and Private Banking $m	Corporate and Institutional Banking $m	NZ Banking $m	Corporate Functions and Other [1] $m	Eliminations [2] $m	Group Cash Earnings $m
Net interest income	3,709	4,955	1,919	1,496	851	-	12,930
Other income	1,659	1,048	1,427	533	(113)	(51)	4,503
Net operating income	5,368	6,003	3,346	2,029	738	(51)	17,433
Operating expenses	(2,870)	(2,045)	(1,298)	(806)	(470)	51	(7,438)
Underlying profit	2,498	3,958	2,048	1,223	268	-	9,995
Charge to provide for doubtful debts	(282)	(140)	(217)	(116)	(45)	-	(800)
Cash earnings before tax and distributions	2,216	3,818	1,831	1,107	223	-	9,195
Income tax expense	(651)	(1,145)	(464)	(303)	(25)	-	(2,588)
Cash earnings before distributions	1,565	2,673	1,367	804	198	-	6,607
Distributions	-	-	-	-	(124)	-	(124)
Cash earnings	**1,565**	**2,673**	**1,367**	**804**	**74**	**-**	**6,483**

(1) *Corporate Functions & Other includes Treasury, NAB UK CRE, Technology and Operations and Other Support units.*
(2) *Balance includes Nautilus Insurance premiums which are booked to the Customer Segments and eliminated at the Group Level.*
(3) *Information is presented on a continuing operations basis.*

Reportable segment assets	Consumer Banking and Wealth [1] $m	Business and Private Banking $m	Corporate and Institutional Banking $m	NZ Banking $m	Corporate Functions and Other [2] [3] $m	Eliminations $m	Group Total Assets $m
30 September 2017	**217,567**	**192,848**	**259,297**	**76,055**	**97,981**	**(55,423)**	**788,325**
30 September 2016	206,016	187,200	257,303	73,916	103,265	(50,990)	776,710

(1) *Total assets of the Consumer Banking and Wealth segment include the investment in MLC Limited of $549 million (2016: $550 million), an associate accounted for using the equity method. Refer to Note 31 Interest in subsidiaries and other entities for further information on the investment in MLC Limited.*
(2) *Corporate Functions & Other includes Treasury, NAB UK CRE, Technology and Operations and Other Support units.*
(3) *Total assets for Corporate Functions and Other has been restated to reflect a change in presentation of interest accrual on certain derivatives.*

Financial performance (continued)

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 Wealth net 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	
	2017 (1)	2016 (1)
	$m	$m
Net interest income		
Net interest income on a cash earnings basis	**13,166**	12,930
Fair value and hedge ineffectiveness	**(21)**	-
Wealth net adjustment	**37**	-
Net interest income on a statutory basis	**13,182**	12,930
Other income		
Other income on a cash earnings basis (2)	**4,729**	4,503
Wealth net adjustment	**817**	801
Treasury shares	**-**	68
Fair value and hedge ineffectiveness	**(692)**	(141)
Life insurance 20% share of profit (3)	**-**	(39)
Amortisation of acquired intangible assets	**(12)**	-
Other income on a statutory basis	**4,842**	5,192
Operating expenses		
Operating expenses on a cash earnings basis (2)	**7,635**	7,438
Wealth net adjustment	**849**	801
Amortisation of acquired intangible assets	**55**	92
Operating expenses on a statutory basis	**8,539**	8,331
Charge to provide for doubtful debts		
Charge to provide for doubtful debts on a cash earnings basis	**810**	800
Fair value adjustment on loans and advances at fair value	**14**	13
Charge to provide for doubtful debts on a statutory basis	**824**	813
Income tax expense		
Income tax expense on a cash earnings basis	**2,710**	2,588
Income tax benefit / (expense) on non-cash earnings items:		
Wealth net adjustment	**2**	(5)
Treasury shares	**-**	7
Fair value and hedge ineffectiveness	**(227)**	(28)
Amortisation of acquired intangible assets	**(5)**	(9)
Income tax expense on a statutory basis	**2,480**	2,553
Cash earnings		
Group cash earnings (2)	**6,642**	6,483
Non-cash earnings items (after tax):		
Distributions	**98**	124
Treasury shares	**-**	61
Fair value and hedge ineffectiveness	**(500)**	(126)
Life insurance 20% share of profit (3)	**-**	(39)
Amortisation of acquired intangible assets	**(62)**	(83)
Net loss attributable to discontinued operations	**(893)**	(6,068)
Net profit attributable to owners of NAB	**5,285**	352

(1) *Information is presented on a continuing operations basis.*
(2) *Includes eliminations and distributions.*
(3) *Included in statutory profit from 1 October 2016 onward.*

Notes to the financial statements

Financial performance (continued)

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]	
	2017	2016	2017	2016
	$m	$m	$m	$m
Australia	**14,966**	15,218	**10,283**	10,642
New Zealand	**2,176**	2,105	**677**	625
Other International	**939**	845	**45**	59
Total before inter-geographic eliminations	**18,081**	18,168	**11,005**	11,326
Elimination of inter-geographic items	**(57)**	(46)	**-**	-
Total	**18,024**	18,122	**11,005**	11,326

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

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

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 2017 has been adjusted for the following:
- Distributions.
- Fair value and hedge ineffectiveness.
- Amortisation of acquired intangible assets.

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 29 Dividends and distributions*. The effect of this in the September 2017 financial year is to reduce cash earnings by $98 million.

Fair Value and Hedge Ineffectiveness

Fair value and hedge ineffectiveness causes volatility in statutory profit, which is excluded from cash earnings as it is income neutral over the full term of transactions. This arises from fair value movements relating to trading derivatives 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 2017 financial year there was a reduction in statutory profit of $727 million ($500 million after tax) from fair value and hedge ineffectiveness. This was largely due to the mark-to-market losses from derivatives used to hedge the Group's long-term funding issuances, driven by unfavourable movements in interest rates, foreign exchange rates and cross currency spreads, and mark-to-market movements of assets and liabilities designated at fair value reflecting current market conditions.

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 2017 financial year, there was a decrease in statutory profit of $67 million ($62 million after tax) due to the amortisation of acquired intangible assets.

Financial performance (continued)

3 Net interest income

	Group		Company	
	2017[1]	2016[1]	2017	2016
	$m	$m	$m	$m
Interest income				
Due from other banks	**590**	585	**544**	525
Marketable debt securities	**2,226**	2,097	**2,096**	1,952
Loans and advances [2]	**23,330**	23,486	**18,864**	19,138
Due from customers on acceptances	**419**	770	**419**	770
Due from controlled entities	**-**	-	**3,435**	3,700
Other interest income	**838**	691	**743**	639
Total interest income	**27,403**	27,629	**26,101**	26,724
Interest expense				
Due to other banks	**559**	646	**543**	621
Deposits and other borrowings [3]	**8,229**	8,733	**7,031**	7,499
Bonds, notes and subordinated debt [4] [5]	**4,464**	4,516	**3,734**	3,813
Due to controlled entities	**-**	-	**4,214**	4,434
Bank levy	**94**	-	**94**	-
Other debt issues [5]	**233**	265	**233**	260
Other interest expense	**642**	539	**618**	584
Total interest expense	**14,221**	14,699	**16,467**	17,211
Net interest income	**13,182**	12,930	**9,634**	9,513

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

(2) *Includes $1,193 million (2016: $1,383 million) of interest income on loans and advances accounted for at fair value for the Group, and $934 million (2016: $1,028 million) for the Company.*

(3) *Includes $164 million (2016: $224 million) of interest expense on deposits and other borrowings accounted for at fair value for the Group, and nil (2016: nil) for the Company.*

(4) *Includes $734 million (2016: $530 million) of interest expense on bonds, notes and subordinated debt accounted for at fair value for the Group, and $128 million (2016: $155 million) for the Company.*

(5) *For the year ended 30 September 2016, certain amounts previously classified as bonds, notes and subordinated debt were reclassified to other debt issues.*

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 expense includes the cost of the Bank levy. The levy is imposed under the *Major Bank Levy Act 2017* on authorised deposit-taking institutions with total liabilities of more than $100 billion, and became effective from 1 July 2017.

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.

Financial performance (continued)

4 Other income

	Group		Company	
	2017[1]	2016[1]	2017	2016
	$m	$m	$m	$m
Net investment and insurance income				
Change in policy liabilities	**-**	(2,861)	**-**	-
Movement in external unitholders' liability	**-**	(1,015)	**-**	-
Investment revenue [2]	**-**	4,037	**-**	-
Fee income [3]	**-**	433	**-**	-
Total net investment and insurance income	**-**	594	**-**	-
Gains less losses on financial instruments at fair value				
Trading securities	**(821)**	1,275	**(818)**	1,263
Trading derivatives	**2,135**	(275)	**2,650**	80
Assets, liabilities and derivatives designated in hedge relationships [4]	**(680)**	(82)	**(646)**	358
Assets and liabilities designated at fair value	**(225)**	(187)	**(164)**	(147)
Other	**143**	96	**150**	72
Total gains less losses on financial instruments at fair value	**552**	827	**1,172**	1,626
Other operating income				
Dividend revenue				
Controlled entities	**-**	-	**2,005**	2,199
Other entities	**27**	21	**30**	65
Gains / (losses) from sale of investments, loans, property, plant and equipment and other assets	**36**	52	**(6)**	52
Banking fees	**943**	871	**784**	727
Money transfer fees	**584**	596	**444**	466
Fees and commissions	**2,162**	1,696	**372**	446
Investment management fees	**280**	255	**-**	-
Other income [2]	**258**	280	**222**	217
Total other operating income	**4,290**	3,771	**3,851**	4,172
Total other income	**4,842**	5,192	**5,023**	5,798

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

[2] *For the Group, this 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.*

[3] *Subsequent to the Successor Fund Merger, fee income on the related investment assets and investment contract liabilities is recognised within fees and commissions in Other operating income.*

[4] *Represents hedge ineffectiveness of designated hedging relationships, plus economic hedges where hedge accounting has not been applied.*

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.

Financial performance (continued)

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.

5 Operating expenses

	Group		Company	
	2017 [(1)]	2016 [(1)]	2017	2016
	$m	$m	$m	$m
Personnel expenses				
Salaries and related on-costs [(2)]	**3,252**	3,344	**2,488**	2,515
Superannuation costs - defined contribution plans [(2)]	**258**	267	**230**	230
Performance-based compensation [(3)]				
Cash [(2)]	**395**	445	**274**	283
Equity-based compensation	**187**	197	**160**	177
Total performance-based compensation	**582**	642	**434**	460
Other expenses [(2)]	**326**	278	**247**	242
Total personnel expenses	**4,418**	4,531	**3,399**	3,447
Occupancy-related expenses				
Operating lease rental expense	**442**	404	**464**	446
Other expenses	**85**	89	**68**	70
Total occupancy-related expenses	**527**	493	**532**	516
General expenses				
Fees and commission expense [(2)]	**611**	501	**31**	46
Depreciation and amortisation of property, plant and equipment	**305**	274	**151**	126
Amortisation of intangible assets	**429**	347	**325**	243
Advertising and marketing	**187**	196	**163**	151
Charge to provide for operational risk event losses [(4)]	**182**	48	**973**	793
Communications, postage and stationery	**204**	272	**169**	198
Computer equipment and software	**651**	621	**614**	586
Data communication and processing charges	**80**	89	**45**	51
Professional fees	**503**	500	**373**	367
Loss on disposal of property, plant and equipment and other assets	**9**	8	**1**	1
Impairment losses recognised [(5)]	**20**	6	**129**	1,137
Loss on disposal of controlled entities [(6)]	**-**	-	**-**	4,433
Other expenses	**413**	445	**302**	228
Total general expenses	**3,594**	3,307	**3,276**	8,360
Total operating expenses	**8,539**	8,331	**7,207**	12,323
Charge to provide for doubtful debts [(7)]				
Loans and advances	**824**	813	**731**	702
Total charge to provide for doubtful debts	**824**	813	**731**	702

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

(2) *Comparative information has been restated to accord with the changes in presentations made in 2017, reflecting a reallocation of expenses between 'salaries and related on-costs', 'superannuation costs - defined contribution plans', 'performance based compensation - cash', 'other personnel expenses' and 'fees and commission expense'.*

(3) *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.*

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

(5) *The Company charge in 2016 includes the impairment of National Wealth Management Holdings which is eliminated at a Group level.*

(6) *The Company charge in 2016 includes the CYBG Group loss on sale and other related costs.*

(7) *Refer to Note 17 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

Financial performance (continued)

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 24 Provisions* for details of employee benefit related provisions.

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 33 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 24 Provisions* for details of the Group's operational risk event losses provisions.

Depreciation and amortisation

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.

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 22 Goodwill and other intangible assets* for details around the useful lives of specific intangible asset classes.

Financial performance (continued)

6 Earnings per share

	Group			
	2017		2016	
	Basic	Diluted	Basic	Diluted
Earnings ($m)				
Net profit attributable to owners of NAB	**5,285**	**5,285**	352	352
Distributions on other equity instruments	**(98)**	**(98)**	(124)	(124)
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	**-**	**126**	-	75
Interest expense on convertible preference shares	**-**	**119**	-	130
Adjusted earnings	**5,187**	**5,432**	228	433
Net (loss) attributable to owners of NAB from discontinued operations [1]	**(893)**	**(893)**	(6,068)	(6,068)
Adjusted earnings from continuing operations [2]	**6,080**	**6,325**	6,296	6,501
Weighted average ordinary shares (No. '000)				
Weighted average ordinary shares (net of treasury shares)	**2,664,511**	**2,664,511**	2,596,957	2,596,957
Potential dilutive weighted average ordinary shares				
Performance options and performance rights	**-**	**4,687**	-	4,735
Partly paid ordinary shares	**-**	**29**	-	32
Employee share plans	**-**	**5,375**	-	8,587
Convertible notes	**-**	**92,866**	-	63,689
Convertible preference shares	**-**	**105,605**	-	119,686
Total weighted average ordinary shares	**2,664,511**	**2,873,073**	2,596,957	2,793,686
Earnings per share (cents) attributable to owners of NAB	**194.7**	**189.1**	8.8	15.5
Earnings per share from continuing operations (cents)	**228.2**	**220.1**	242.4	232.7
Earnings per share from discontinued operations (cents)	**(33.5)**	**(31.1)**	(233.7)	(217.2)

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

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

There has been no material conversion to, calls of, or subscriptions for ordinary shares, or issue of potential ordinary shares since 30 September 2017, and before the completion of this financial report.

Notes to the financial statements

Taxation

7 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	
	2017 [(1)]	2016 [(1)]	2017	2016
	$m	$m	$m	$m
Income tax expense				
Current tax	**2,573**	2,766	**1,818**	1,856
Deferred tax	**(93)**	(213)	**(74)**	(89)
Total income tax expense	**2,480**	2,553	**1,744**	1,767

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

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

	Group		Company	
	2017 [(1)]	2016 [(1)]	2017	2016
	$m	$m	$m	$m
Profit before income tax expense	**8,661**	8,978	**6,719**	2,286
Prima facie income tax at 30%	**2,598**	2,693	**2,016**	686
Add / (deduct): Tax effect of amounts not deductible / (assessable):				
Assessable foreign income	**7**	4	**4**	4
Foreign tax rate differences	**(43)**	(36)	**(16)**	(20)
Losses not tax effected	**11**	42	**11**	42
Foreign branch income not assessable	**(78)**	(65)	**(78)**	(65)
(Over) / under provision in prior years	**(17)**	(26)	**(13)**	(18)
Offshore banking unit income	**(62)**	(56)	**(53)**	(46)
Restatement of deferred tax balances for tax rate changes	**1**	4	**1**	4
Treasury shares adjustment	**-**	(14)	**-**	-
Non-deductible hybrid distributions	**70**	58	**70**	58
Dividend income adjustments	**-**	-	**(352)**	(433)
Other [(2)]	**(7)**	(51)	**154**	1,555
Total income tax expense	**2,480**	2,553	**1,744**	1,767

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

(2) *The Company reconciliation items disclosed as "Other" includes primarily the CYBG loss on sale for 30 September 2016, 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)

8 Current tax liabilities

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Current tax liabilities	**230**	297	**71**	248
Total income tax liabilities	**230**	297	**71**	248

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.

9 Deferred tax assets and liabilities

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Deferred tax assets				
Specific provision for doubtful debts	**223**	248	**166**	173
Collective provision for doubtful debts	**742**	713	**625**	606
Employee entitlements	**250**	263	**225**	238
Tax losses	**76**	76	**68**	74
Unrealised revaluations on Funding vehicles	**531**	528	**-**	-
Other	**470**	426	**374**	324
Total deferred tax assets	**2,292**	2,254	**1,458**	1,415
Set-off of deferred tax liabilities pursuant to set-off provisions	**(304)**	(329)	**(216)**	(243)
Net deferred tax assets	**1,988**	1,925	**1,242**	1,172
Deferred tax liabilities				
Intangible assets	**8**	8	**-**	-
Depreciation	**148**	196	**80**	148
Defined benefit superannuation plan assets	**10**	10	**6**	6
Other	**138**	115	**130**	89
Total deferred tax liabilities	**304**	329	**216**	243
Deferred tax liabilities set-off against deferred tax assets pursuant to set-off provisions	**(304)**	(329)	**(216)**	(243)
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	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Capital gains tax losses	**1,131**	1,143	**1,131**	1,143
Income tax losses	**478**	444	**478**	444

Financial assets and liabilities

10 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 30 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. 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 35 Fair value of financial instruments*) or Level 2 market observable inputs in the case of various financial institution or corporate securities. The fair value of the securities accepted under these terms as at 30 September 2017 amounted to $48,785 million (2016: $37,534 million) for the Group and $47,926 million (2016: $36,771 million) for the Company, of which $32,489 million (2016: $25,426 million) for the Group and $32,305 million (2016: $25,343 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 18 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	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Coins, notes and cash at bank	**1,162**	1,024	**1,035**	895
Securities purchased under agreements to resell	**40,766**	28,219	**40,627**	27,762
Other (including bills receivable and remittances in transit)	**1,898**	1,387	**490**	60
Total cash and liquid assets	**43,826**	30,630	**42,152**	28,717

Due from other banks

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Central banks and other regulatory authorities [(1)]	**22,219**	26,320	**20,916**	24,955
Other banks [(1)]	**14,847**	18,916	**14,114**	18,404
Total due from other banks	**37,066**	45,236	**35,030**	43,359

(1) *Securities purchased under agreements to resell as at 30 September 2016 have been reclassified from Central banks and other regulatory authorities to Other banks.*

Financial assets and liabilities (continued)

Due to other banks

	Group 2017 $m	Group 2016 $m	Company 2017 $m	Company 2016 $m
Central banks and other regulatory authorities [(1)]	**15,103**	17,812	**15,103**	17,812
Other banks [(1)]	**21,580**	26,091	**20,098**	24,837
Total due to other banks	**36,683**	43,903	**35,201**	42,649

[(1)] *Securities sold under repurchase agreements as at 30 September 2016 have been reclassified from Central banks and other regulatory authorities to Other banks.*

11 Trading derivative assets and liabilities

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.

The table below sets out the fair value of trading derivatives:

Trading derivative financial instruments

	Group				Company			
	Assets 2017 $m	Liabilities 2017 $m	Assets 2016[(1)] $m	Liabilities 2016[(1)] $m	Assets 2017 $m	Liabilities 2017 $m	Assets 2016[(1)] $m	Liabilities 2016[(1)] $m
Foreign exchange rate-related contracts								
Spot and forward contracts	**4,388**	**4,128**	4,656	4,720	**4,106**	**3,790**	4,305	4,336
Cross currency swaps	**9,384**	**9,789**	13,112	13,383	**9,696**	**9,941**	14,096	13,760
Options / swaptions purchased	**50**	**-**	132	51	**49**	**43**	127	141
Options / swaptions written	**19**	**63**	52	213	**19**	**20**	52	125
Total foreign exchange rate-related contracts	**13,841**	**13,980**	17,952	18,367	**13,870**	**13,794**	18,580	18,362
Interest rate-related contracts								
Forward rate agreements	**1**	**2**	10	11	**1**	**2**	9	11
Swaps	**14,386**	**12,262**	23,075	21,137	**15,599**	**12,322**	21,764	18,481
Futures [(2)]	**-**	**-**	682	766	**-**	**-**	682	766
Options / swaptions purchased	**267**	**204**	344	123	**267**	**204**	343	123
Options / swaptions written	**333**	**383**	484	623	**333**	**383**	484	623
Total interest rate-related contracts	**14,987**	**12,851**	24,595	22,660	**16,200**	**12,911**	23,282	20,004
Credit derivatives	**77**	**126**	142	144	**82**	**131**	145	147
Commodity derivatives	**169**	**168**	177	164	**170**	**167**	177	164
Other derivatives	**63**	**62**	280	224	**61**	**62**	283	224
Total trading derivative financial instruments	**29,137**	**27,187**	43,146	41,559	**30,383**	**27,065**	42,467	38,901

[(1)] *Comparative information has been restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).*

[(2)] *As of 30 September 2017, the Group has recognised variation margin as settlement of exchange traded derivatives. Comparative information has not been restated.*

12 Trading securities

	Group 2017 $m	Group 2016 $m	Company 2017 $m	Company 2016 $m
Government bonds, notes and securities	**27,816**	21,247	**24,802**	18,225
Semi-government bonds, notes and securities	**5,079**	4,523	**4,303**	4,037
Corporate / financial institution bonds, notes and securities	**17,996**	19,096	**16,468**	18,188
Other bonds, notes and securities	**63**	1,105	**64**	1,063
Total trading securities	**50,954**	45,971	**45,637**	41,513

Financial assets and liabilities (continued)

13 Debt instruments at fair value through other comprehensive income

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Government bonds, notes and securities	**2,927**	2,562	**2,927**	2,562
Semi-government bonds, notes and securities	**20,915**	21,186	**20,915**	21,186
Corporate / financial institution bonds, notes and securities	**7,951**	8,793	**7,876**	8,700
Other bonds, notes and securities	**10,338**	8,148	**10,311**	8,132
Total debt instruments at fair value through other comprehensive income	**42,131**	40,689	**42,029**	40,580

14 Other financial assets at fair value

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Loans at fair value	**14,596**	19,864	**10,926**	14,560
Other financial assets at fair value	**1,462**	1,632	**899**	271
Total other financial assets at fair value	**16,058**	21,496	**11,825**	14,831

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 $14,596 million (2016: $19,864 million) for the Group and $10,926 million (2016: $14,560 million) for the Company. The cumulative change in fair value of the loans attributable to changes in credit risk amounted to a $116 million loss (2016: $148 million loss) for the Group and a $90 million loss (2016: $103 million loss) for the Company and the change for the current year is a $32 million gain (2016: $174 million gain) for the Group and a $13 million gain (2016: $96 million gain) for the Company.

15 Hedge accounting, including hedging derivative assets and liabilities

Entities in the Group designate certain derivatives entered into for risk management purposes as:

- 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 the fair value of recognised assets or liabilities or firm commitments (fair value hedges).
- Hedges of net investments in foreign operations.

Derivatives used for risk management purposes which for various reasons do not meet the qualifying criteria for hedge accounting, are included in trading derivatives.

The table below sets out hedging derivative assets and liabilities by the type of hedge relationship in which they are designated.

	Group				Company			
	2017		**2016** [(1)]		**2017**		**2016** [(1)]	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Hedging derivatives in cash flow hedges	**160**	**115**	461	306	**152**	**115**	299	271
Hedging derivatives in fair value hedges	**3,732**	**1,542**	6,278	3,092	**3,664**	**3,727**	6,020	6,426
Hedging derivatives of net investments in foreign operations	**-**	**17**	2	4	**-**	**17**	-	4
Total hedging derivatives	**3,892**	**1,674**	6,741	3,402	**3,816**	**3,859**	6,319	6,701

(1) Comparative information has been restated to reflect a change in presentation of interest accrual, which is now presented within hedging derivative assets and hedging derivative liabilities (previously included in other assets and other liabilities).

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". As part of the requirements to apply hedge accounting, the Group documents, at the inception of the hedge relationship, the relationship between hedging instruments and hedged items, the risk being hedged, the Group's risk management objective and strategy for undertaking hedge transactions, and how effectiveness will be measured throughout the life of the hedge relationship. In addition, the Group documents its assessment, both at inception and on an ongoing basis, of whether the hedging instruments 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.

Financial assets and liabilities (continued)

(a) Cash flow hedges

The operations of the Group are subject to the risk of interest rate fluctuations to the extent of the repricing profile of the Group's balance sheet. Derivatives are held for the purpose of managing existing or anticipated interest rate risk. Whilst some derivatives are entered into on a one-to-one basis to manage a specific exposure, other derivatives are entered into after consideration of the interest rate risk from a portfolio of exposures, such as a portfolio of assets, or the net exposure from a portfolio of assets and liabilities. Where the derivatives used are eligible for hedge accounting, they are designated in a cash flow hedge relationship where possible to manage the profit and loss volatility associated with the derivatives which would otherwise be measured at fair value through profit or loss. This requires identification of eligible assets or liabilities, and designation of derivatives to obtain hedge accounting. Cash flow hedge accounting involves designating derivatives as hedges of the variability in highly probable forecast future cash flows attributable to interest rate risk from the benchmark interest rate on variable rate assets and liabilities.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is 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. Amounts accumulated in equity are transferred to the income statement in the period(s) in which the hedged item (e.g. the forecast hedged variable cash flows) affects 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. 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.

Methods used to test hedge effectiveness and establish the hedge ratio include regression analysis, and for some portfolio hedge relationships, a comparison to ensure the expected interest cash flows from the portfolio exceed those of the hedging instruments. The main potential source of hedge ineffectiveness from cash flow hedges is mismatches in the terms of hedged items and hedging instruments, for example the frequency and timing of when interest rates are reset.

The carrying amount of derivatives designated in cash flow hedge relationships is as follows.

	Group				Company			
	2017		2016 [1]		2017		2016 [1]	
	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Interest rate swaps	**160**	**115**	461	306	**152**	**115**	299	271

[1] *Comparative information has been restated to reflect a change in presentation of interest accrual, which is now presented within hedging derivative assets and hedging derivative liabilities (previously included in other assets and other liabilities).*

The following tables show the notional amount of derivatives designated in cash flow hedge relationships in time bands based on the maturity of the derivatives.

	2017					2016				
Group	**0 to 3 month(s) $m**	**3 to 12 months $m**	**1 to 5 year(s) $m**	**Over 5 years $m**	**Total $m**	**0 to 3 month(s) $m**	**3 to 12 months $m**	**1 to 5 year(s) $m**	**Over 5 years $m**	**Total $m**
Interest rate swaps										
Pay fixed	**11,797**	**19,486**	**44,921**	**1,450**	**77,654**	10,330	6,426	21,388	1,583	39,727
Receive fixed	**12,895**	**33,999**	**29,599**	**817**	**77,310**	48,390	17,707	24,289	372	90,758
Other interest rate derivatives [1]										
Pay fixed	**6,291**	**8,000**	**3,198**	**-**	**17,489**	5,379	7,448	1,970	-	14,797
Receive fixed	**5,547**	**7,300**	**2,331**	**-**	**15,178**	3,904	5,325	2,295	-	11,524

	2017					2016				
Company	**0 to 3 month(s) $m**	**3 to 12 months $m**	**1 to 5 year(s) $m**	**Over 5 years $m**	**Total $m**	**0 to 3 month(s) $m**	**3 to 12 months $m**	**1 to 5 year(s) $m**	**Over 5 years $m**	**Total $m**
Interest rate swaps										
Pay fixed	**11,584**	**18,978**	**41,238**	**1,352**	**73,152**	10,187	6,326	19,324	1,454	37,291
Receive fixed	**12,676**	**33,145**	**26,014**	**766**	**72,601**	47,839	16,821	20,588	335	85,583
Other interest rate derivatives [1]										
Pay fixed	**2,927**	**5,985**	**3,060**	**-**	**11,972**	3,241	4,465	1,970	-	9,676
Receive fixed	**2,000**	**3,950**	**2,193**	**-**	**8,143**	2,668	3,330	2,200	-	8,198

[1] *Other interest rate derivatives include interest rate futures and forward rate agreements. The carrying amount of other interest rate derivatives is less than $1 million.*

A loss of $1 million (2016: $6 million gain) for the Group and the Company was recognised in other income in the income statement related to hedge ineffectiveness from cash flow hedge relationships.

There is no balance in the cash flow hedge reserve from any hedge relationship for which hedge accounting is no longer applied.

Financial assets and liabilities (continued)

(b) Fair value hedges

Derivatives are held for the purpose of managing existing and anticipated interest rate risk, in particular to swap the exposure from fixed rate assets and liabilities to a floating interest rate. In addition, where fixed rate assets and liabilities are denominated in a foreign currency, derivatives are used to manage the associated foreign currency risk. The Group may designate a cross currency swap that swaps from the fixed foreign currency to floating US dollars or floating Australian dollars in a single hedge relationship of both interest rate risk and currency risk, or may use a combination of derivatives (such as an interest rate swap and cross currency swap), and apply hedge accounting to the interest rate swap, and include the cross currency swap in trading derivatives. As both interest rate risk and currency risk are hedged in a single hedge relationship in some cases, these disclosures do not distinguish between interest rate risk, and the combination of interest rate risk and currency risk as two separate risk categories. The Group generally hedges its exposure to changes in the fair value of fixed rate assets and liabilities in respect of the benchmark interest rate.

Derivatives are entered into on a one-to-one basis to manage specific exposures, namely:
- Interest rate risk in respect of fixed rate semi-government bonds, notes and securities classified as fair value through other comprehensive income.
- Interest rate risk in respect of fixed rate amounts due from other term lending.
- Interest rate risk or both interest rate and currency risk in respect of fixed rate bonds, notes and subordinated debt. Associated with these hedges are fair value hedges at the Company level of amounts due from controlled entities for amounts raised from the issuance of covered bonds that have been on lent to controlled entities.

In addition, derivatives are entered into to manage interest rate risk from a portfolio of exposures, namely amounts due from fixed rate housing loans originated in New Zealand. A dynamic process is used for these portfolio fair value hedges as the make-up of the portfolio of fixed rate housing loans changes with early repayments, new originations and maturities. The hedge relationship is frequently discontinued and redesignated, generally on a weekly basis. This note includes these portfolio hedge relationships because the volume of fixed rate housing loans hedged is relatively stable, and it is the change in the make-up of the portfolio and desire to maximise the hedge effectiveness result that drive the dynamic hedging strategy.

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 amount of the hedged asset or liability.

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.

Regression analysis and cumulative dollar offset are used to test hedge effectiveness and establish the hedge ratio. The main potential sources of hedge ineffectiveness from fair value hedges are:
- Currency basis inherent in the valuation of cross currency swaps, but not in hedged items denominated in a foreign currency. Currency basis is a liquidity premium that is charged for borrowing in one currency over another, and changes over time impacting the fair value of cross currency swaps.
- Changes in margin where the full interest rate (rather than the benchmark interest rate component) of hedged items has been included in a hedge relationship.
- Mismatches in the terms of hedged items and hedging instruments, for example the frequency and timing of when interest rates are reset.
- Early repayment of hedged housing loans.

The carrying amount of derivatives designated in fair value hedge relationships is as follows:

	Group				Company			
	2017		2016 [(1)]		2017		2016 [(1)]	
	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Interest rate swaps	**256**	**756**	925	2,160	**227**	**782**	825	2,045
Cross currency swaps	**3,476**	**786**	5,353	932	**3,437**	**2,945**	5,195	4,381
Total hedging derivatives in fair value hedges	**3,732**	**1,542**	6,278	3,092	**3,664**	**3,727**	6,020	6,426

(1) *Comparative information has been restated to reflect a change in presentation of interest accrual, which is now presented within hedging derivative assets and hedging derivative liabilities (previously included in other assets and other liabilities).*

Financial assets and liabilities (continued)

The following tables show the notional amount of derivatives designated in fair value hedge relationships in time bands based on the maturity of the derivatives.

	2017					2016				
Group	**0 to 3 month(s) $m**	**3 to 12 months $m**	**1 to 5 year(s) $m**	**Over 5 years $m**	**Total $m**	**0 to 3 month(s) $m**	**3 to 12 months $m**	**1 to 5 year(s) $m**	**Over 5 years $m**	**Total $m**
Interest rate swaps										
Pay fixed	**1,620**	**4,143**	**15,193**	**9,981**	**30,937**	1,715	9,101	12,844	8,800	32,460
Receive fixed	**1,982**	**7,457**	**46,348**	**13,810**	**69,597**	664	9,868	37,130	13,487	61,149
Cross currency swaps hedging exposures denominated in [1]										
USD	**-**	**2,232**	**3,284**	**-**	**5,516**	-	3,423	5,727	-	9,150
EUR	**-**	**-**	**4,131**	**5,213**	**9,344**	-	-	1,099	8,002	9,101
GBP	**1,026**	**599**	**1,710**	**428**	**3,763**	-	-	2,291	1,438	3,729
Other	**169**	**235**	**1,513**	**995**	**2,912**	-	97	1,281	1,589	2,967

	2017					2016				
Company	**0 to 3 month(s) $m**	**3 to 12 months $m**	**1 to 5 year(s) $m**	**Over 5 years $m**	**Total $m**	**0 to 3 month(s) $m**	**3 to 12 months $m**	**1 to 5 year(s) $m**	**Over 5 years $m**	**Total $m**
Interest rate swaps										
Pay fixed	**35**	**180**	**14,265**	**9,949**	**24,429**	-	4,103	12,337	10,300	26,740
Receive fixed	**1,913**	**3,013**	**43,436**	**13,810**	**62,172**	60	8,420	35,206	12,384	56,070
Cross currency swaps hedging exposures denominated in [1]										
USD	**-**	**4,463**	**6,472**	**-**	**10,935**	-	6,706	11,290	-	17,996
EUR	**-**	**-**	**5,257**	**7,408**	**12,665**	-	-	2,199	10,155	12,354
GBP	**1,026**	**599**	**1,710**	**855**	**4,190**	-	-	2,291	1,860	4,151
Other	**169**	**235**	**1,854**	**1,580**	**3,838**	-	97	1,281	2,542	3,920

(1) *The notional amount of cross currency swaps is determined based on the currency of the hedged item translated at the spot exchange rate at 30 September.*

The average rate for major currencies of the final exchange of cross currency swaps designated in fair value hedge relationships is as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
USD: AUD	**1.034**	1.026	**1.036**	1.027
EUR: USD	**1.372**	1.372	**1.372**	1.372
EUR: AUD	**1.350**	1.350	**1.329**	1.329
GBP: USD	**1.655**	1.655	**1.655**	1.655
GBP: AUD	**1.725**	1.725	**1.700**	1.700

Financial assets and liabilities (continued)

The carrying amount of hedged items in fair value hedge relationships, and the accumulated amount of fair value hedge adjustments included in these carrying amounts are as follows:

	Group				Company			
	Carrying amount 2017 $m	Fair value hedge adjustments 2017 $m	Carrying amount 2016 $m	Fair value hedge adjustments 2016 $m	Carrying amount 2017 $m	Fair value hedge adjustments 2017 $m	Carrying amount 2016 $m	Fair value hedge adjustments 2016 $m
Debt instruments at fair value through other comprehensive income								
Semi-government bonds, notes and securities [1]	**17,796**	**-**	17,986	-	**17,796**	**-**	17,986	-
Loans and advances								
Housing loans [2]	**12,875**	**38**	14,072	139	**-**	**-**	-	-
Other term lending [3]	**1,577**	**(12)**	1,111	37	**1,577**	**(12)**	1,111	37
	14,452	**26**	15,183	176	**1,577**	**(12)**	1,111	37
Due from controlled entities [4]	**-**	**-**	-	-	**13,022**	**593**	16,832	1,028
Bonds, notes and subordinated debt [5] [6]								
Medium-term notes	**46,109**	**293**	40,384	1,526	**46,109**	**293**	40,384	1,526
Covered bonds	**21,303**	**567**	21,351	1,178	**12,996**	**593**	16,802	1,028
Subordinated medium-term notes	**2,081**	**155**	1,854	296	**2,081**	**155**	1,854	296
	69,493	**1,015**	63,589	3,000	**61,186**	**1,041**	59,040	2,850

(1) *The carrying amount of debt instruments at fair value through other comprehensive income does not include a fair value hedge adjustment as the hedged asset is measured at fair value. The accounting for the hedge relationship results in a transfer from other comprehensive income to the income statement.*

(2) *The carrying amount of housing loans in a portfolio fair value hedge relationship is approximate, and represents the principal of the loans and the fair value hedge adjustment.*

(3) *The carrying amount of other term lending for the Group and the Company is presented in the balance sheet as $1,572 million (2016: $1,108 million) of loans and advances and $5 million (2016: $3 million) of accrued interest receivable in other assets.*

(4) *The carrying amount of due from controlled entities is presented in the balance sheet as $12,939 million (2016: $16,731 million) of amounts due from controlled entities and $83 million (2016: $101 million) of accrued interest receivable in other assets.*

(5) *The carrying amount of bonds, notes and subordinated debt is presented in the balance sheet as $68,984 million (2016: $63,126 million) for the Group and $60,715 million (2016: $58,595 million) for the Company of bonds, notes and subordinated debt and $509 million (2016: $463 million) for the Group and $471 million (2016: $445 million) for the Company of accrued interest payable in other liabilities.*

(6) *The accumulated amount of fair value hedge adjustments included in the carrying amount of bonds, notes and subordinated debt includes $309 million (2016: $492 million) for the Group and $287 million (2016: $492 million) for the Company related to hedged items that have ceased to be adjusted for hedging gains and losses.*

Fair value hedge relationships resulted in the following changes in value used as the basis for recognising hedge ineffectiveness during the period:

	Group		Company	
	2017 [1] $m	2016 [1] $m	2017 $m	2016 $m
Losses on hedging instruments	**(2,566)**	(2,304)	**(2,008)**	(1,552)
Gains on hedged items attributable to the hedged risk	**1,887**	2,217	**1,363**	1,434
Hedge ineffectiveness recognised in the income statement [2] [3]	**(679)**	(87)	**(645)**	(118)

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

(2) *Hedge ineffectiveness was recognised in other income in the income statement.*

(3) *Represents hedge ineffectiveness of designated hedge relationships, plus economic hedges where hedge accounting has not been applied.*

Financial assets and liabilities (continued)

(c) Hedges of net investments in foreign operations

A foreign currency exposure arises from a net investment in branches and subsidiaries that have a different functional currency from that of the Company. The risk arises from the fluctuation in spot exchange rates between the functional currencies of the foreign operations and the Company. It is the Group's policy not to hedge the exposure to foreign currency where the investment in a foreign operation is considered perpetual in nature. In certain circumstances the Group does undertake hedging activities such as where the investment in a foreign operation is non-core or flagged for divestment.

Hedges of net investments in foreign operations are accounted for in a similar way 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.

Items designated as hedging instruments in hedges of net investments in foreign operations are liabilities denominated in the functional currency of the foreign operation and forward foreign exchange contracts. Effectiveness is assessed by comparing changes in the carrying amount of the liability or the fair value of the derivative attributable to movements in the spot rate with changes in the investment in the foreign operation due to movement in the spot rate. As foreign operations are only hedged to the extent of the liability or notional amount of the derivative, no ineffectiveness is expected to arise.

Details of items designated as hedging instruments in hedges of net investments in foreign operations are outlined in the following tables.

	2017			2016		
		Carrying amount			Carrying amount	
	Nominal amount	Assets	Liabilities	Nominal amount	Assets	Liabilities
Group	(millions of GBP)	$m	$m	(millions of GBP)	$m	$m
Hedging derivatives	**539**	**-**	**17**	714	2	4
Liabilities [(1)]	**1,021**	**-**	**1,746**	1,018	-	1,731
	1,560	**-**	**1,763**	1,732	2	1,735

	2017			2016		
		Carrying amount			Carrying amount	
	Nominal amount	Assets	Liabilities	Nominal amount	Assets	Liabilities
Company	(millions of GBP)	$m	$m	(millions of GBP)	$m	$m
Hedging derivatives	**513**	**-**	**17**	689	-	4

[(1)] *Liabilities denominated in the functional currency of the foreign operation that have been designated as hedging net investments in foreign operations are presented in the balance sheet as due to other banks, and deposits and other borrowings.*

Financial assets and liabilities (continued)

16 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	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Housing loans	**329,534**	314,557	**293,212**	278,659
Other term lending	**182,935**	168,604	**150,920**	139,632
Asset and lease financing	**11,674**	10,949	**11,214**	10,478
Overdrafts	**5,673**	6,304	**3,715**	4,223
Credit card outstandings	**7,409**	7,518	**6,365**	6,439
Other lending	**6,539**	5,759	**6,025**	5,215
Total gross loans and advances	**543,764**	513,691	**471,451**	444,646
Deduct:				
Unearned income and deferred net fee income	**(415)**	(532)	**(479)**	(700)
Provision for doubtful debts	**(3,224)**	(3,114)	**(2,695)**	(2,625)
Total net loans and advances	**540,125**	510,045	**468,277**	441,321

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.

Loans and advances by credit quality

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Gross loans and advances				
Neither past due nor impaired	**530,654**	500,556	**459,577**	433,319
Past due but not impaired	**11,440**	10,646	**10,629**	9,747
Impaired	**1,670**	2,489	**1,245**	1,580
Total gross loans and advances	**543,764**	513,691	**471,451**	444,646

Loans and advances past due but not impaired

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
1 to 7 day(s) past due	**5,056**	4,675	**4,735**	4,349
8 to 29 days past due	**2,149**	2,028	**1,968**	1,809
30 to 59 days past due	**1,282**	1,288	**1,172**	1,177
60 to 89 days past due	**711**	680	**670**	630
90 or more days past due	**2,242**	1,975	**2,084**	1,782
Total loans and advances past due but not impaired	**11,440**	10,646	**10,629**	9,747

Loans and advances that are past due but 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.

Financial assets and liabilities (continued)

17 Provision for doubtful debts

	Group 2017 $m	Group 2016 $m	Company 2017 $m	Company 2016 $m
New and increased provisions (net of releases)	**1,177**	1,158	**1,014**	904
Write-backs of specific provisions	**(242)**	(156)	**(195)**	(104)
Recoveries of specific provisions	**(111)**	(119)	**(88)**	(98)
Total charge to the income statement	**824**	883	**731**	702
Attributable to:				
Charge to income statement from continuing operations	**824**	813	**731**	702
Charge to income statement from discontinuing operations	**-**	70	**-**	-

Group	Stage 1 12-mth ECL Collective provision $m	Stage 2 Lifetime ECL not credit impaired Collective provision $m	Stage 3 Lifetime ECL credit impaired Collective provision $m	Stage 3 Lifetime ECL credit impaired Specific provision $m	Total $m
Balance at 1 October 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 - collective provision	543	(520)	(23)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(45)	98	(53)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(3)	(76)	79	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(2)	(120)	(114)	236	-
New and increased provisions (net of releases)	(518)	526	191	959	1,158
Write-backs of specific provisions	-	-	-	(156)	(156)
Bad debts written-off	-	-	-	(778)	(778)
Derecognised in respect of the group disposal [(1)]	(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**
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-months ECL - collective provision	**329**	**(316)**	**(13)**	**-**	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	**(44)**	**123**	**(79)**	**-**	**-**
Transfer to Lifetime ECL credit impaired - collective provision	**(3)**	**(42)**	**45**	**-**	**-**
Transfer to Lifetime ECL credit impaired - specific provision	**(2)**	**(135)**	**(100)**	**237**	**-**
New and increased provisions (net of releases)	**(295)**	**538**	**124**	**810**	**1,177**
Write-backs of specific provisions	**-**	**-**	**-**	**(242)**	**(242)**
Bad debts written-off	**-**	**-**	**-**	**(849)**	**(849)**
Foreign currency translation and other adjustments	**(1)**	**(6)**	**4**	**27**	**24**
Balance at 30 September 2017	**313**	**1,819**	**403**	**689**	**3,224**

(1) *The September 2016 full year reflects the CYBG demerger.*

Group - 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 2017 financial 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 increased by $110 million compared to the balance at 30 September 2016.

Specific provisions decreased by $17 million compared to the balance at 30 September 2016, primarily due to a lower rate of new impairments combined with successful work-out strategies across the Australian business lending portfolio.

Collective provisions increased by $127 million compared to the balance at 30 September 2016, comprised of:

- Collective provision 12-months ECL (Stage 1) – decrease of $16 million as a result of:
  - $124 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period or migrated from Stage 1 to Stage 2 or Stage 3 due to deterioration in credit quality.
  - Partially offset by $148 billion of loans and advances that were newly originated or migrated into Stage 1 from Stage 2 or Stage 3 due to credit improvement.
- Collective provision Lifetime ECL – not credit-impaired (Stage 2) – increase of $162 million as a result of:
  - $24 billion in loans and advances migrating into Stage 2 as a result of transfer of loans and advances from Stage 1 or Stage 3.
  - Targeted overlays established for certain sectors on a forward looking basis.
  - Partially offset by $33 billion of loans and advances exiting Stage 2 due to repayment or as a result of improved credit quality.
- Collective provision Lifetime ECL – credit-impaired (Stage 3) – decrease of $19 million as a result of:
  - $3 billion of loans and advances that were repaid or migrated to individually credit assessed with specific provisions raised.

Financial assets and liabilities (continued)

Company	Stage 1 12-mth ECL Collective provision $m	Stage 2 Lifetime ECL not credit impaired Collective provision $m	Stage 3 Lifetime ECL credit impaired Collective provision $m	Lifetime ECL credit impaired Specific provision $m	Total $m
Balance at 1 October 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 - collective provision	430	(412)	(18)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(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	-
New and increased provisions (net of releases)	(419)	360	115	848	904
Write-backs of specific provisions	-	-	-	(104)	(104)
Bad debts written-off	-	-	-	(668)	(668)
Foreign currency translation and other adjustments	(14)	(10)	(1)	(9)	(34)
Balance at 30 September 2016	**269**	**1,431**	**322**	**603**	**2,625**
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-months ECL - collective provision	**274**	**(263)**	**(11)**	**-**	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	**(36)**	**86**	**(50)**	**-**	**-**
Transferred to Lifetime ECL credit impaired - collective provision	**(2)**	**(36)**	**38**	**-**	**-**
Transferred to Lifetime ECL credit impaired - specific provision	**(2)**	**(131)**	**(91)**	**224**	**-**
New and increased provisions (net of releases)	**(258)**	**444**	**119**	**709**	**1,014**
Write-backs of specific provisions	**-**	**-**	**-**	**(195)**	**(195)**
Bad debts written-off	**-**	**-**	**-**	**(789)**	**(789)**
Foreign currency translation and other adjustments	**1**	**2**	**7**	**30**	**40**
Balance at 30 September 2017	**246**	**1,533**	**334**	**582**	**2,695**

Company - 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 2017 financial 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 $70 million compared to the balance at 30 September 2016.

Specific provisions decreased by $21 million compared to the balance at 30 September 2016, primarily due to lower rate of impairments combined with successful work-out strategies across the Australian business lending portfolio.

Collective provisions increased by $91 million compared to the balance at 30 September 2016, comprised of:
- Collective provision 12-months ECL (Stage 1) – decreased by $23 million due to:
  - $106 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period or migrated from Stage 1 to Stage 2 or Stage 3 due to deterioration in credit quality.
  - Partially offset by $126 billion of loans and advances that were newly originated or migrated into Stage 1 from Stage 2 or Stage 3 due to credit improvement.
- Collective provision Lifetime ECL – not credit-impaired (Stage 2) – increased by $102 million due to:
  - $20 billion of loans and advances migrating into Stage 2 as a result of transfer of loans and advances from Stage 1 or Stage 3.
  - Targeted overlays established for certain sectors on a forward looking basis.
  - Partially offset by $26 billion of loans exiting Stage 2 due to repayment or as a result of improved credit quality.
- Collective provision Lifetime ECL – credit-impaired (Stage 3) – increased by $12 million due to:
  - $2 billion of loans and advances that migrated into Stage 3 from Stage 1 and Stage 2 due to deterioration in credit quality.
  - Partially offset by $1 billion of loans that were repaid.

Write-offs still under enforcement activity

The contractual amount outstanding on loans and advances that were written off during the 2017 financial year, and are still subject to enforcement activity was $84 million (2016: $182 million) for the Group and $76 million (2016: $169 million) for the Company.

Information about the nature and effect of modifications on the measurement of provision for doubtful debts

A loan is renegotiated 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 renegotiated loans are derecognised, the renegotiated contract is a new loan and impairment is assessed in accordance with the Group's accounting policy.

Where renegotiated loans are not derecognised, impairment continues to be assessed for significant increases in credit risk compared to the initial origination credit risk rating.

Financial assets and liabilities (continued)

The following table discloses information on loans and advances that were modified but not derecognised during the 2017 financial year, for which the provision for doubtful debts was measured at a lifetime ECL at 30 September 2016, and at the end of the 2017 financial year had changed to a 12-months ECL:

	Group		Company	
	2017	2016	2017	2016
	$m	$m	$m	$m
Amortised cost before the modification	**423**	483	**341**	374
Gross carrying amount at end of reporting period	**412**	462	**334**	354

Information about total impaired assets

The following table provides details on impaired assets. Gross amounts are shown before taking into account any collateral held or other credit enhancements. Refer *Note 34 Financial risk management* for analysis of the credit quality of the Group's loans and advances.

	Group		Company	
	2017	2016	2017	2016
	$m	$m	$m	$m
Gross impaired assets [(1)]	**1,724**	2,642	**1,263**	1,604
Specific provision for doubtful debts [(2)]	**(691)**	(712)	**(582)**	(607)
Net impaired assets [(3)]	**1,033**	1,930	**681**	997

(1) Gross impaired assets include $34 million (2016: $135 million) for the Group and nil (2016: $7 million) for the Company of gross impaired other financial assets at fair value, $20 million (2016: $18 million) of impaired off-balance sheet credit exposures for the Group and $18 million (2016: $17 million) for the Company, and $205 million (2016: $785 million) for the Group and nil (2016: nil) for the Company of impaired exposures currently assessed as no loss based on collective provision and security held.

(2) Specific provision for doubtful debts includes $2 million (2016: $6 million) for the Group and nil (2016: $4 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 $1,089 million (2016: $1,810 million) for the Group and $747 million (2016: $883 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.

18 Other financial liabilities at fair value

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

	Group		Company	
	2017	2016	2017	2016
	$m	$m	$m	$m
Bonds, notes and subordinated debt	**22,869**	19,697	**4,320**	3,751
Deposits and other borrowings				
On-demand and short-term deposits	**204**	300	**-**	-
Certificates of deposit	**1,243**	2,247	**-**	-
Term deposits	**1,027**	5,604	**-**	-
Commercial paper & other borrowings	**2,236**	3,502	**-**	-
Securities sold short	**1,803**	1,628	**1,575**	1,628
Other financial liabilities	**249**	246	**35**	29
Total other financial liabilities at fair value	**29,631**	33,224	**5,930**	5,408

The change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a gain for the 2017 financial year of $11 million (2016: $113 million loss) for the Group and a gain of $55 million (2016: $131 million loss) 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 $198 million (2016: $209 million loss) for the Group and a loss of $93 million (2016: $148 million loss) for the Company. The contractual amount to be paid at the maturity of the bonds, notes and subordinated debt is $22,365 million (2016: $18,773 million) for the Group and $4,075 million (2016: $3,303 million) for the Company.

Notes to the financial statements

Financial assets and liabilities (continued)

19 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	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Deposits				
Term deposits	**159,861**	153,181	**131,279**	132,344
On-demand and short-term deposits	**199,245**	189,718	**182,103**	171,783
Certificates of deposit	**51,009**	43,763	**51,009**	43,764
Deposits not bearing interest	**47,247**	41,698	**42,566**	37,296
Commercial paper & other borrowings	**19,749**	15,290	**19,560**	14,990
Securities sold under agreements to repurchase	**23,493**	16,064	**23,493**	16,064
Total deposits and other borrowings	**500,604**	459,714	**450,010**	416,241

20 Bonds, notes and subordinated debt

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.

Bonds, notes and subordinated debt

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Medium-term notes [(1)]	**89,815**	90,106	**89,833**	90,106
Securitisation notes [(2)]	**3,099**	4,050	**-**	-
Covered bonds [(2)]	**22,398**	24,239	**22,424**	24,089
Subordinated medium-term notes [(1)]	**9,058**	9,031	**9,058**	9,031
Other subordinated notes	**501**	516	**-**	-
Total bonds, notes and subordinated debt [(3)]	**124,871**	127,942	**121,315**	123,226

(1) *Prior period comparatives have been restated to reflect a $26 million reclassification of hedge adjustments between Medium-term notes to Subordinated medium-term notes.*

(2) *Both Covered bonds and Securitisation notes were previously aggregated as a single line item (Other senior notes) in the 2016 AFR. Prior year comparatives have been restated.*

(3) *The balances includes net discounts/premium adjustments. Prior year comparatives have been restated.*

Issued bonds, notes and subordinated debt by currency

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
AUD	**35,887**	35,863	**32,806**	31,815
USD	**40,220**	39,663	**40,259**	39,648
EUR	**29,851**	28,380	**29,828**	28,244
GBP	**7,611**	11,004	**7,621**	11,004
Other	**11,302**	13,032	**10,801**	12,515
Total bonds, notes and subordinated debt [(1)]	**124,871**	127,942	**121,315**	123,226

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

Financial assets and liabilities (continued)

Subordinated medium term notes

Currency	Notional amount[1]	Maturity / First optional call date	Group 2017	Group 2016[2]	Company 2017	Company 2016[2]
	m		$m	$m	$m	$m
AUD	1,172m	Floating due 2017	**-**	1,171	**-**	1,171
AUD	950m	Floating due 2017	**950**	950	**950**	950
GBP	350m	Fixed due 2018	**625**	647	**625**	647
EUR	500m	Fixed due 2018	**777**	813	**777**	813
EUR	750m	Fixed due 2019	**1,124**	1,100	**1,124**	1,100
EUR	1,000m	Fixed due 2020	**1,586**	1,571	**1,586**	1,571
AUD	1,100m	Floating due 2020	**1,100**	1,100	**1,100**	1,100
HKD	1,137m	Fixed due 2021	**184**	195	**184**	195
JPY	10,000m	Fixed due 2021	**113**	130	**113**	130
AUD	150m	Fixed due 2021	**146**	151	**146**	151
AUD	650m	Floating due 2021	**650**	650	**650**	650
JPY	10,000m	Fixed due 2021	**113**	-	**113**	-
SGD	450m	Fixed due 2023	**428**	493	**428**	493
AUD	943m	Floating due 2023	**935**	-	**935**	-
AUD	275m	Fixed due 2027	**272**	-	**272**	-
AUD	20m	Fixed due 2027	**28**	30	**28**	30
AUD	20m	Fixed due 2028	**27**	30	**27**	30
TOTAL			**9,058**	9,031	**9,058**	9,031

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

(2) *Prior period comparatives have been restated to include any net discounts / premium adjustments, as well as the above mentioned $26 million reclassification of hedge adjustments from Medium-term notes.*

Other subordinated notes

On 17 December 2015, BNZ issued NZD550 million of subordinated unsecured notes in New Zealand (BNZ Subordinated Notes), treated as Tier 2 capital under NAB'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 Group holds derivative financial instruments to manage interest rate and foreign exchange risk on bonds, notes and subordinated debt. Refer to *Note 11 Trading derivative assets and liabilities* and *Note 15 Hedge accounting, including hedging derivative assets and liabilities* for further information on the Group's trading and hedging derivative assets and liabilities.

Refer to *Note 34 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.

Financial assets and liabilities (continued)

21 Other debt issues

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Perpetual floating rate notes	**147**	220	**147**	220
Convertible preference shares and convertible notes	**6,040**	6,028	**6,040**	6,028
Total other debt issues	**6,187**	6,248	**6,187**	6,248

Perpetual Floating Rate Notes

On 9 October 1986, the Group issued USD250 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 USD82.5 million floating rate notes, which were subsequently cancelled by the Group. In 2017, the Group executed a number of repurchases and cancellations of the undated subordinated floating rate notes aggregating USD52.0 million. The Group currently has USD115.5 million of undated subordinated floating rate notes outstanding which qualify as Tier 2 capital subject to transitional Basel III treatment.

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), subject to certain conversion conditions being satisfied. 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 3 month BBSW for NAB CPS and 3.25% per annum above the 3 month BBSW for NAB CPS II. Both issuances have supported the Group's Tier 1 capital position as an eligible Additional Tier 1 capital instrument.

Convertible Notes

On 23 March 2015, the Group issued $1.34 billion of convertible notes (NAB Capital Notes) and on 7 July 2016, the Group issued $1.50 billion of convertible notes (NAB Capital Notes 2). The convertible notes will mandatorily convert into ordinary shares on the mandatory conversion dates, 23 March 2022 (NAB Capital Notes) and 8 July 2024 (NAB Capital Notes 2), subject to certain conversion conditions being satisfied. With prior written approval from APRA, the Company has the option to convert, redeem or resell the NAB Capital Notes on 23 March 2020 and the NAB Capital Notes 2 on 7 July 2022, or earlier following the occurrence of certain events. NAB Capital Notes and NAB Capital Notes 2 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 3.50% per annum above the 3 month BBSW for NAB Capital Notes and 4.95% per annum above the 3 month BBSW for NAB Capital Notes 2. Both issuances have supported the Group's Tier 1 capital position as an eligible Additional Tier 1 capital instrument.

Other assets and liabilities

22 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 once deployed, using the straight-line method over their expected useful lives which are between three and ten years. Software assets are generally deployed when the asset is ready for its intended use. Certain software assets are deployed on a progressive basis to match the benefits profile from the asset's use.

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Goodwill	**2,862**	2,913	**-**	-
Internally generated software	**2,608**	2,207	**2,274**	1,971
Acquired software	**98**	137	**87**	122
Other acquired intangible assets [(1)]	**33**	45	**-**	-
Goodwill and other intangibles	**5,601**	5,302	**2,361**	2,093
At cost	**8,397**	7,809	**4,351**	3,775
Deduct: Accumulated amortisation / Impairment losses	**(2,796)**	(2,507)	**(1,990)**	(1,682)
Goodwill and other intangibles	**5,601**	5,302	**2,361**	2,093

(1) *Other acquired intangible assets include brand names and the value of business and contracts in force.*

Reconciliation of movements in goodwill and other intangible assets

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Goodwill				
Balance at beginning of year	**2,913**	4,631	**-**	-
Disposals from sale of controlled entities	**(50)**	(1,713)	**-**	-
Foreign currency translation adjustments	**(1)**	(5)	**-**	-
Balance at end of year	**2,862**	2,913	**-**	-
Internally generated software				
Balance at beginning of year	**2,207**	2,457	**1,971**	1,702
Additions from internal development	**750**	655	**586**	471
Disposals, impairments and write-offs [(1)]	**(20)**	(674)	**(19)**	(10)
Amortisation	**(324)**	(273)	**(264)**	(192)
Foreign currency translation adjustments	**(5)**	42	**-**	-
Balance at end of year	**2,608**	2,207	**2,274**	1,971

(1) *Includes discontinued operations of CYBG in the year ended 30 September 2016. 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 CGUs that represents the lowest level within the Group at which goodwill is maintained for internal management purposes, which is at the segment level.

Other assets and liabilities (continued)

As noted in *Note 2 Segment information* the Group has reorganised its reporting structure and this has changed the composition of the CGUs to which goodwill has been allocated. For comparability, the 2016 goodwill has been restated on the basis of this new allocation.

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:

	Goodwill		Discount rate per annum	Terminal value growth rate per annum
	2017	2016	2017	2017
Reportable segments	$m	$m	%	%
Consumer Banking and Wealth	**2,536**	2,587	**10.5**	**4.8**
Business and Private Banking	**68**	68	**10.5**	**4.8**
NZ Banking	**258**	258	**11.0**	**4.9**
Total goodwill	**2,862**	2,913	**n/a**	**n/a**

23 Other assets

	Group		Company	
	2017	2016	2017	2016
	$m	$m	$m	$m
Cash collateral placed with third parties	**3,209**	3,176	**2,765**	3,176
Accrued interest receivable [(1)]	**981**	879	**832**	716
Prepayments	**196**	189	**161**	155
Receivables	**642**	596	**314**	243
Other debt instruments at amortised cost	**584**	778	**1**	1
Equity instruments at fair value through other comprehensive income	**271**	273	**239**	240
Investment in associates - MLC Limited [(2)]	**549**	550	**-**	-
Receivable - MLC Limited [(3)]	**-**	2,206	**-**	2,206
Other [(4)]	**3,014**	3,254	**2,354**	2,658
Total other assets	**9,446**	11,901	**6,666**	9,395

(1) *The 2016 comparative information has been restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).*

(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 securities sold not delivered, settlements clearing and investments relating to life insurance business.*

Other assets and liabilities (continued)

24 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 32 Contingent liabilities and credit commitments*.

	Group		Company	
	2017	2016	2017	2016
	$m	$m	$m	$m
Employee entitlements	**952**	1,024	**772**	821
Operational risk event losses	**785**	12	**755**	5
Restructuring	**-**	25	**-**	23
Other	**224**	371	**207**	308
Total provisions	**1,961**	1,432	**1,734**	1,157

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 30 September 2017, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

Reconciliation of movements in provision

	Group		Company	
	2017	2016	2017	2016
	$m	$m	$m	$m
Operational risk event losses (1)				
Balance at beginning of year	**12**	2,177	**5**	21
Provisions made	**1,022**	840	**994**	833
Payments out of provisions	**(271)**	(819)	**(268)**	(819)
Provisions no longer required and net foreign currency movements (2)	**22**	(2,186)	**24**	(30)
Balance at end of year	**785**	12	**755**	5

(1) *Operational risk event losses includes claims pursuant to the Conduct Indemnity Deed. Refer to Note 32 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.

25 Other liabilities

	Group		Company	
	2017	2016	2017	2016
	$m	$m	$m	$m
Accrued interest payable (1)	**2,283**	2,307	**1,944**	1,857
Payables and accrued expenses	**3,119**	2,192	**2,721**	1,751
Cash collateral received from third parties	**1,045**	1,311	**1,044**	1,309
Other (2)	**1,533**	1,864	**1,233**	1,752
Total other liabilities	**7,980**	7,674	**6,942**	6,669

(1) *The 2016 comparative information has been restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).*

(2) *Other includes payables relating to settlements clearing and unpresented bank cheques.*

Capital management

26 Contributed equity

In accordance with the *Corporations Act 2001* (Cth), the Company does not have authorised capital and all ordinary shares have no par value. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are included within equity. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held at shareholders' meetings. In the event of a winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any residual proceeds of liquidation.

	Group		Company	
	2017	2016	2017	2016
	$m	$m	$m	$m
Issued and paid-up ordinary share capital				
Ordinary shares, fully paid	**31,707**	30,968	**30,921**	30,182
Other contributed equity				
National Income Securities	**1,945**	1,945	**1,945**	1,945
Trust Preferred Securities	**975**	975	**-**	-
National Capital Instruments	**-**	397	**-**	397
Total contributed equity	**34,627**	34,285	**32,866**	32,524

Ordinary Shares

Reconciliation of movement in ordinary shares

	Group		Company	
	2017	2016	2017	2016
	$m	$m	$m	$m
Balance at beginning of year	**30,968**	31,334	**30,182**	32,065
Shares issued:				
Dividend reinvestment plan (DRP)	**569**	596	**569**	596
Transfer from equity-based compensation reserve	**170**	166	**170**	166
Capital distribution on CYBG demerger	**-**	(2,645)	**-**	(2,645)
Treasury shares sold relating to life insurance business [1]	**-**	1,517	**-**	-
Balance at end of year	**31,707**	30,968	**30,921**	30,182

(1) *Relates to shares in NAB previously held by Wealth's life insurance business which are no longer held by a controlled entity of the Group.*

The number of ordinary shares on issue for the last two years at 30 September was as follows:

	Company	
	2017	2016
	No. '000	No. '000
Ordinary shares, fully paid		
Balance at beginning of year	**2,656,976**	2,625,764
Shares issued:		
Dividend reinvestment plan (DRP)	**19,794**	21,325
Bonus share plan	**2,203**	2,052
Employee share plans	**6,249**	7,461
Performance rights	**241**	359
Paying up of partly paid shares	**6**	15
Total ordinary shares, fully paid	**2,685,469**	2,656,976
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	**49**	64
Paying up of partly paid shares	**(6)**	(15)
Total ordinary shares, partly paid to 25 cents	**43**	49
Total number of ordinary shares on issue at end of year (including treasury shares)	**2,685,512**	2,657,025
Deduct: Treasury shares	**(9,643)**	(9,504)
Total number of ordinary shares on issue at end of year (excluding treasury shares)	**2,675,869**	2,647,521

National Income Securities

On 29 June 1999, the Company issued 20,000,000 National Income Securities (NIS) at $100 each. These securities are stapled securities, comprising one fully paid note of $100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (NIS preference share). The amount unpaid on a NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the Australian 3 month bank bill rate plus 1.25% per annum, payable quarterly in arrears.

With the prior written consent of APRA, the Company may redeem each note for $100 (plus any accrued distributions) and buy back or cancel the NIS preference share stapled to the note for no consideration. NIS have no maturity date and are quoted on the Australian Securities Exchange (ASX). NIS qualify as Additional Tier 1 capital, subject to transitional Basel III treatment.

Notes to the financial statements

Capital management (continued)

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. Trust Preferred Securities qualify as Additional Tier 1 capital, subject to transitional Basel III treatment.

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. Prior to their redemption, Australian NCIs qualified as Additional Tier 1 capital subject to transitional Basel III treatment.

27 Reserves

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Foreign currency translation reserve	**(338)**	(71)	**(241)**	(209)
Asset revaluation reserve	**83**	83	**-**	-
Cash flow hedge reserve	**46**	143	**5**	57
Equity-based compensation reserve	**273**	234	**273**	234
General reserve for credit losses	**-**	75	**-**	75
Debt instruments at fair value through other comprehensive income reserve	**89**	80	**89**	80
Equity instruments at fair value through other comprehensive income reserve	**84**	85	**64**	72
Total reserves	**237**	629	**190**	309

Foreign currency translation reserve

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Balance at beginning of year	**(71)**	(1,091)	**(209)**	(160)
Currency adjustments on translation of foreign operations, net of hedging	**(269)**	(329)	**(32)**	(49)
Transfer to the income statement on disposal of foreign operations [1]	**(10)**	1,368	**-**	-
Tax on foreign currency translation reserve	**12**	(19)	**-**	-
Balance at end of year	**(338)**	(71)	**(241)**	(209)

[1] *The 2016 balance represents foreign currency translation reserve released on divestment of discontinued operations.*

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.

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.

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.

Capital management (continued)

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 (GRCL) is calculated using a prudential expected loss methodology that differs to that used for AASB 9 "Financial Instruments" expected credit loss provisions. The GRCL represents an appropriation of retained profits to non-distributable reserves when the regulatory reserve is greater than the accounting provision. The purpose of the GRCL is to provide the Group with freely available capital which can be used to meet credit losses that may subsequently materialise.

Debt instruments at fair value through other comprehensive income reserve

Debt instruments at fair value through other comprehensive income reserve includes all changes in the fair value of investments in debt instruments except for impairment based on the three-stage expected credit loss model, foreign exchange gains and losses and interest income. The changes recognised in reserve are transferred to profit or loss when the asset is derecognised or impaired.

Equity instruments at fair value through other comprehensive income reserve

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

28 Retained profits

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Balance at beginning of year	**16,378**	21,205	**15,719**	20,470
Net profit attributable to owners of NAB from continuing operations	**6,178**	6,420	**4,975**	519
Net loss attributable to owners of NAB from discontinued operations	**(893)**	(6,068)	**-**	-
Dividends paid	**(5,216)**	(5,060)	**(5,216)**	(5,161)
Distributions on other equity instruments	**(98)**	(124)	**(60)**	(68)
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	**11**	(113)	**55**	(131)
Reclassification of National Capital Instruments transaction costs	**(3)**	-	**(3)**	-
Actuarial gains on defined benefit superannuation plans	**-**	31	**-**	-
Gains on disposal of interest in subsidiary (1)	**-**	6	**-**	-
Transfer from asset revaluation reserve	**-**	1	**-**	-
Transfer (to) / from equity-based compensation reserve (2)	**(22)**	7	**(22)**	7
Transfer from / (to) general reserve for credit losses	**75**	(11)	**75**	(11)
Transfer from equity instruments at fair value through other comprehensive income reserve	**-**	94	**-**	94
Tax on items taken directly to / (from) equity	**32**	(10)	**22**	-
Balance at end of year	**16,442**	16,378	**15,545**	15,719

(1) Represents gains from discontinued operations recognised directly in retained profits.

(2) Transfer (to) / from equity-based compensation reserve relates to lapsed options and rights. In addition, the 2017 balance for the Group and the Company includes an adjustment related to prior period equity-based compensation.

Capital management (continued)

29 Dividends and distributions

Dividends on ordinary shares recognised by the Group and Company for the year ended 30 September:

2017	Amount per share cents	Total amount $m
Final dividend declared in respect of the year ended 30 September 2016	**99**	**2,630**
Interim dividend declared in respect of the year ended 30 September 2017	**99**	**2,649**
Deduct: Bonus shares in lieu of dividend	**n/a**	**(63)**
Dividends paid by the Company during the year ended 30 September 2017		**5,216**
Add: Dividends paid to non-controlling interests in controlled entities		**5**
Dividends paid by the Group (Before dividend reinvestment plan)		**5,221**
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
Dividends paid by the Group (Before dividend reinvestment plan)		5,065

(1) *Excludes any treasury shares held in trust by a controlled entity of the Group in respect of employee incentive schemes.*

Franked dividends declared or paid during 2017 were fully franked at a tax rate of 30% (2016: 30%).

In 2016, the CYBG demerger resulted in the distribution of CYBG shares valued at $2,645 million to NAB shareholders.

Final dividend

On 2 November 2017, 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 2017	99	2,659	100

The final 2017 ordinary dividend is payable on 13 December 2017. The Group will offer a 1.5% discount on the Dividend Reinvestment Plan, with no participation limit. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2017 and will be recognised in subsequent financial reports.

Australian franking credits

The franking credits available to the Group at 30 September 2017, 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 $1,115 million (2016: $1,476 million). Franking credits to be utilised as a result of the payment of the proposed final dividend are $1,139 million (2016: $1,127 million). Due to the timing of the dividend payment, and the monthly tax instalments that will fall due before the dividend is paid, the franking credits available to the Group immediately after the payment of the dividend will be $230 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$0.10 per share will be attached to the final 2017 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	
	2017 $m	2016 $m	2017 $m	2016 $m
National Income Securities	**60**	68	**60**	68
Trust Preferred Securities (1)	**38**	43	**-**	-
National Capital Instruments (2)	**-**	13	**-**	-
Total distributions on other equity instruments	**98**	124	**60**	68

(1) *$A Equivalent.*

(2) *National Capital Instruments were fully redeemed on 4 October 2016.*

Notes to the financial statements

Cash flow information

30 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	
	2017	2016	2017	2016
	$m	$m	$m	$m
Net profit attributable to owners of NAB	**5,285**	352	**4,975**	519
Add / (deduct) non-cash items in the income statement:				
(Increase) / decrease in interest receivable	**(107)**	146	**(117)**	249
(Decrease) / increase in interest payable	**(94)**	(607)	**8**	(202)
Decrease in unearned income and deferred net fee income	**(139)**	(209)	**(240)**	(178)
Fair value movements on assets, liabilities and derivatives held at fair value	**(3,777)**	(4,233)	**(3,670)**	(3,159)
Decrease in personnel provisions	**(89)**	(96)	**(76)**	(1)
Increase / (decrease) in other operating provisions	**632**	(547)	**653**	345
Equity-based compensation recognised in equity or reserves	**187**	203	**187**	203
Superannuation costs - defined benefit plans	**-**	23	**-**	-
Impairment losses on non-financial assets	**20**	5	**129**	359
Charge to provide for bad and doubtful debts	**824**	883	**731**	702
Depreciation and amortisation expense	**734**	679	**476**	369
Movement in life insurance policyholder liabilities	**(3)**	1,868	**-**	-
Unrealised loss / (gain) on investments relating to life insurance business	**2**	(1,446)	**-**	-
Decrease in other assets	**308**	111	**250**	425
Increase / (decrease) in other liabilities	**40**	(645)	**(14)**	(645)
Increase / (decrease) in income tax payable	**18**	(480)	**(8)**	(745)
(Increase) / decrease in deferred tax assets	**(67)**	113	**(30)**	(155)
(Increase) / decrease in deferred tax liabilities	**(25)**	(269)	**(43)**	69
Operating cash flow items not included in profit [1]	**9,503**	13,046	**11,350**	10,941
Investing or financing cash flows included in profit				
(Gain) / Loss on sale of controlled entities, before income tax	**(44)**	5,555	**-**	4,923
Loss on sale of property, plant, equipment and other assets	**9**	8	**1**	1
Net cash provided by operating activities	**13,217**	14,460	**14,562**	14,020

(1) Cash flows relating to bonds, notes and subordinated debt at fair value that occurred in the year ended 30 September 2016 have been reclassified from net receipts from / (payments for) other financial liabilities at fair value, to repayments of and proceeds from bonds, notes and subordinated debt.

(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	
	2017	2016	2017	2016
Cash and cash equivalents	$m	$m	$m	$m
Assets				
Cash and liquid assets (excluding money at short call)	**43,826**	30,630	**42,152**	28,717
Treasury and other eligible bills	**762**	574	**-**	-
Due from other banks (excluding mandatory deposits with supervisory central banks)	**31,703**	37,349	**29,688**	35,472
Total cash and cash equivalent assets	**76,291**	68,553	**71,840**	64,189
Liabilities				
Due to other banks	**(36,491)**	(40,593)	**(35,009)**	(39,339)
Total cash and cash equivalents	**39,800**	27,960	**36,831**	24,850

Included within due from other banks is the cash deposit of $877 million (GBP513 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	
	2017	2016	2017	2016
	$m	$m	$m	$m
New share issues				
Dividend reinvestment plan	**569**	596	**569**	596
New debt issues				
Subordinated medium-term notes reinvestment offer	**539**	-	**539**	-

Notes to the financial statements

Group structure

31 Interest in subsidiaries and other entities

a) Investment in controlled 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.

	Company	
	2017	**2016**
	$m	**$m**
Gross carrying amount	**10,057**	10,771
Deduct: Provision for diminution in value	**(1,384)**	(1,278)
Total investments in controlled entities	**8,673**	9,493

The following table presents the material controlled entities of the Group as at 30 September 2017 and 30 September 2016. 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
MLC Investments Ltd	100	Australia
NULIS Nominees (Australia) Limited	100	Australia
NBA Properties Limited (1)	100	Australia

(1) *For the year ended 30 September 2016, these controlled entities and certain other subsidiaries within the Group were parties to a deed of cross guarantee with the Company and National Australia Trustees Limited as trustees, and pursuant to ASIC Class Order 98/1418 dated 13 August 1998 were granted relief from the Corporations Act 2001 (Cth) requirements for preparation, audit and publication of an annual financial report. The deed of cross guarantee was revoked effective 29 September 2017 - Refer to Note 32 (d) Contingent liabilities and credit commitment for further details.*

(2) *On 8 February 2016, the Group lost control of CYBG - 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 34 Financial risk management* and capital adequacy requirements in *Note 40 Capital adequacy*.

b) 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 does not have control or joint control over these policies. The Group's investments in associates are accounted for using the equity method.

The Group's investments in associates include a 20% interest in MLC Limited, a provider of life insurance products in Australia. MLC Limited was a wholly owned subsidiary of the Group until 30 September 2016 when the Group lost control following the sale of 80% of MLC Limited to Nippon Life. Set out below is the summarised financial information of MLC Limited based on its financial information (and not the Group's 20% share of those amounts) and includes income statement information for the year ended 30 September 2017, and balance sheet information as at 30 September 2017 and 30 September 2016.

	2017
	$m
Summarised income statement of MLC Limited	
Revenue	**1,685**
Net profit for the period	**77**
Total comprehensive income for the period	**77**

Group structure (continued)

	2017 $m
Reconciliation to the Group's share of profit	
MLC Limited's net profit for the period	**77**
Prima facie share of profit at 20%	**15**
Deduct amortisation of intangible assets recognised at acquisition, net of tax	**(7)**
Group's share of profit for the period	**8**

The Group received dividends from MLC Limited of $9.1 million during the year.

	2017 $m	2016 $m
Summarised balance sheet of MLC Limited		
Total assets	**5,834**	6,130
Total liabilities	**3,829**	4,157
Net assets	**2,005**	1,973

	2017 $m	2016 $m
Reconciliation to the Group's investment in MLC Limited		
MLC Limited's net assets	**2,005**	1,973
Prima facie share of net assets at 20%	**401**	395
Add intangible assets recognised at acquisition, net of deferred tax	**148**	155
Group's carrying amount of the investment in MLC Limited	**549**	550

Significant restrictions

Assets in a statutory fund of MLC Limited can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of that fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act 1995* (Cth) are met. This may impact MLC Limited's ability to transfer funds to the Group in the form of dividends. In addition, in certain circumstances the payment of dividends may require approval by APRA.

Transactions

As part of a long term partnership with Nippon Life, the Group distributes MLC Limited life insurance products to retail and group customers through NAB's owned and aligned distribution network under a long-term distribution agreement.

Under a financial services agreement and certain linked arrangements, the Group provides MLC Limited with certain financial services, including:
- On an exclusive basis: custody, transactional banking facilities, unit pricing, fixed income, commodity and currency services.
- On a non-exclusive basis: investment portfolio management.

Under a transitional services agreement, the Group provides certain support services until such time as MLC Limited establishes its own standalone environment and capability. These services include payroll, financial and investment reporting, infrastructure services, major systems and contact centres.

All services are provided on an arm's length basis.

c) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities generally have restricted activities and a narrow and well defined objective which is created through contractual 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.

i) 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.

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 2017 is $1,488 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

Notes to the financial statements

Group structure (continued)

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.

ii) 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 and receiving fees for services. The Group's interest in unconsolidated investment funds is immaterial.

The table below shows the carrying value and maximum exposure to loss of the Group's interests in unconsolidated structured entities.

	2017			2016		
	Securitisations $m	**Other financing $m**	**Total $m**	**Securitisations $m**	**Other financing $m**	**Total $m**
Trading securities	**37**	**-**	**37**	610	-	610
Other financial assets at fair value	**46**	**-**	**46**	271	-	271
Loans and advances	**7,234**	**4,407**	**11,641**	8,513	3,707	12,220
Debt instruments through fair value through other comprehensive income	**10,332**	**-**	**10,332**	8,218	-	8,218
Total carrying value of assets in unconsolidated structured entities	**17,649**	**4,407**	**22,056**	17,612	3,707	21,319
Commitment / Contingencies	**4,254**	**1,030**	**5,284**	3,396	1,223	4,619
Total maximum exposure to loss in unconsolidated structured entities	**21,903**	**5,437**	**27,340**	21,008	4,930	25,938

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 34 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:

	2017			2016		
	Securitisations $m	**Other financing $m**	**Total $m**	**Securitisations $m**	**Other financing $m**	**Total $m**
Senior investment grade	**17,495**	**1,021**	**18,516**	17,158	1,212	18,370
Investment grade	**133**	**2,978**	**3,111**	428	2,044	2,472
Sub-investment grade	**21**	**408**	**429**	26	451	477
Total [(1)]	**17,649**	**4,407**	**22,056**	17,612	3,707	21,319

(1) *Of the total, $22,013 million (2016: $21,293 million) represents the Group's interest in senior notes and $43 million in subordinated notes (2016: $26 million).*

Unrecognised items

32 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 36 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 financial years as at 30 September:

	Group		Company	
	2017	2016	2017	2016
	$m	$m	$m	$m
Bank guarantees and letters of credit				
Bank guarantees	**4,683**	4,802	**4,645**	4,776
Standby letters of credit	**5,456**	5,953	**5,456**	5,953
Documentary letters of credit	**750**	715	**408**	318
Performance-related contingencies	**8,683**	7,435	**8,098**	6,990
Total bank guarantees and letters of credit	**19,572**	18,905	**18,607**	18,037

(ii) Clearing and settlement obligations

The Group is subject to a commitment in accordance with the rules governing clearing and settlement arrangements contained in the Australian Payments Clearing Association Limited Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Consumer Electronic Clearing System and the High Value Clearing System which could result in a credit risk exposure and loss in the event of a failure to settle by a member institution. The Group also has a commitment in accordance with the Austraclear System Regulations and the Continuous Linked Settlement Bank Rules to participate in loss-sharing arrangements in the event that another financial institution fails to settle.

The Group is a member of various central clearing houses, most notably the London Clearing House (LCH) SwapClear and RepoClear platforms and the ASX OTC CCP, which enables the Group to centrally clear derivative and repurchase agreement instruments respectively. As a member of these central clearing houses, the Group is required to make a default fund contribution. The exposure to risk associated with this commitment is reflected for Capital Adequacy purposes in the Group's Pillar 3 reporting. In the event of a default of another clearing member, the Group could be required to commit additional funds to the default fund contribution.

Unrecognised items (continued)

(iii) Legal proceedings - general

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) Legal proceedings - specific

Bank Bill Swap Reference Rate

Following an industry-wide review by ASIC into participants in the Bank Bill Swap Reference Rate (BBSW) market, ASIC commenced Federal Court proceedings against NAB on 7 June 2016. ASIC has also commenced similar proceedings against two other major Australian banks. ASIC's allegations against NAB include claims of market manipulation and unconscionable conduct in relation to trading in the BBSW market during the period from June 2010 to December 2012. NAB has agreed a settlement with ASIC (refer to *Note 42 Events subsequent to reporting date*). The financial impact of this settlement has been reflected in the Group's 2017 full year results.

BBSW class action

In August 2016, a class action complaint was filed in the United States District Court for the Southern District of New York regarding alleged conduct concerning BBSW. The complaint named a number of defendants, including NAB, ANZ, CBA and Westpac, and references the proceedings brought by ASIC against NAB, ANZ and Westpac in relation to BBSW. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

NZ fee class action

On 20 August 2014, a representative action was filed against Bank of New Zealand (BNZ) in relation to certain fees. On 8 May 2017, Fair Play on Fees agreed not to continue that representative action. BNZ agreed to make a contribution towards costs incurred in commencing the action. BNZ has not admitted any liability.

(v) Regulatory compliance investigations - general

Entities within the Group are subject from time to time to regulatory investigations arising from the conduct of their business. This includes regulatory investigations in relation to actual or potential breaches of law or regulations. In addition to situations where the relevant regulatory authority is carrying out the investigation, this includes situations where the Group is carrying out the investigation itself or a third party has been engaged to carry out the investigation.

There are contingent liabilities in respect of regulatory investigations involving entities of the Group. Where appropriate, provisions have been made. The outcome of such regulatory investigations, including whether enforcement action will be taken or other legal proceedings initiated, is typically uncertain and the aggregate of potential liability in respect thereof cannot be accurately assessed.

(vi) Regulatory compliance investigations - specific

Adviser service fees

ASIC is conducting an industry-wide investigation into financial advice fees paid by customers pursuant to ongoing service arrangements with financial advice firms, including members of the NAB Group. Under the service arrangements, customers generally pay an adviser service fee in consideration for a range of services provided to the customer. NAB is investigating whether customers who have paid to receive ongoing services have been provided with the agreed services in accordance with the relevant service agreement with a member of the NAB Group. NAB continues to engage with ASIC on the design of the methodology for investigating and assessing this matter; however, agreement with ASIC has not yet been reached due to different views about aspects of NAB's proposed approach. The outcomes of the investigation are uncertain at this time.

Plan Service Fees

Further to ASIC’s May 2017 report about its industry-wide investigation into financial advice fees, NAB has finalised refunds to customers who did not have a plan adviser attached to their superannuation account and were incorrectly charged Plan Service Fees. ASIC has requested NAB consider certain circumstances regarding continuity of service where a Plan Service Fee continues to be charged and paid to a plan adviser after a superannuation fund member leaves an employer and a change to the member's superannuation plan occurs as a result. NAB continues to engage with ASIC on this matter. The outcomes of the investigation are uncertain at this time.

Wealth advice review

In October 2015, NAB began contacting certain groups of customers where there was a concern that they may have received non-compliant advice since 2009 to: (a) assess the appropriateness of that advice; and (b) identify whether customers had suffered loss as a result of non-compliant advice that would warrant compensation. These cases are progressing through the Customer Response Initiative review program with compensation in some cases offered and paid.

The outcomes and total costs associated with this work are uncertain. Plaintiff law firms continue to encourage NAB customers who have suffered losses as a result of financial advice received from NAB advisers to contact them for legal advice. No class actions have been taken against the Group in this regard.

Notes to the financial statements

Unrecognised items (continued)

NZ Ministry of Business, Innovation and Employment compliance audit

The Labour Inspectorate of the New Zealand Ministry of Business, Innovation and Employment is currently undertaking a program of compliance audits of a number of New Zealand organisations in respect of the *New Zealand Holidays Act 2003* (the "Holidays Act"). BNZ requested early participation in this program in May 2016 and received the Labour Inspectorate's final report, which set out its findings regarding BNZ's compliance with the Holidays Act, on 18 January 2017. The findings indicated that BNZ has not complied with certain requirements of the Holidays Act, including in respect of annual and public holiday payments to certain employees. BNZ is reviewing the findings and is working with the Labour Inspectorate to reach an appropriate resolution. At this stage, the final outcome of the audit, including possible remediation, cannot be determined with any certainty.

Anti-Money Laundering and Counter-Terrorist Financing Program Uplift Work

Since July 2016, NAB has been progressing a program of work to uplift and strengthen the Group Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) Program and its implementation. The work involves significant investment in systems, ensuring an effective and efficient control environment and uplifting compliance capability. In addition to a general uplift in capability, the program of work aims to remediate specific compliance issues and weaknesses if they are identified.

Where significant AML/CTF compliance issues are identified, they are notified to AUSTRAC or equivalent foreign regulators, and those regulators are typically consulted and updated about progress in investigating and remediating the relevant issues. The Group is currently investigating and remediating a number of identified issues, including certain weaknesses with the implementation of ‘Know Your Customer’ requirements and systems and process issues that impacted transaction monitoring and reporting for some specific areas.

It is possible that, as the work progresses, further issues may be identified and additional strengthening may be required. The outcomes of the investigation and remediation process for specific issues identified to date, and for any issues identified in the future, are uncertain.

(vii) Contractual commitments

Insurance claims

NAB is in the process of making insurance claims in relation to certain conduct-related losses suffered by the Group. The insurance claims are accounted for by NAB as a contingent asset. The outcome of such claims cannot be determined with any certainty at this stage.

Contracts - general

Entities within the Group enter into contractual agreements from time to time, which sometimes involve giving contingent commitments such as warranties, indemnities or guarantees.

There are contingent liabilities in respect of such commitments. Where appropriate, provisions have been made. The aggregate potential liability in respect thereof cannot be accurately assessed.

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. Certain other conduct matters, including matters arising from a review of investment advice sales, have now satisfied the thresholds for inclusion as conduct issues covered by the Capped Indemnity.

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 year ended 30 September 2017, CYBG has made claims under the Capped Indemnity for £171 million, leaving £511 million outstanding as available support under the Capped Indemnity (Unutilised Indemnity Amount). In addition, NAB has increased the amount of provisions held for expected future claims under the Conduct Indemnity Deed by £343 million (representing the portion of any increased CYBG provision for which NAB would be responsible under the loss sharing arrangement). If CYBG makes claims under the Conduct Indemnity Deed for this amount, it would reduce the Unutilised Indemnity Amount to £168 million.

Unrecognised items (continued)

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 presently unknown. The amount of the Capped Indemnity that will be utilised by any potential future losses cannot be determined with any certainty at this stage.

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.

(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 16 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 2017 and 30 September 2016:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Credit-related commitments				
Underwriting facilities	**2**	2	**2**	2
Binding credit commitments	**151,375**	146,801	**134,267**	129,487
Total credit-related commitments	**151,377**	146,803	**134,269**	129,489

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Australia	**123,599**	120,534	**122,930**	119,871
New Zealand	**16,439**	16,651	**-**	-
Other International	**11,339**	9,618	**11,339**	9,618
Total	**151,377**	146,803	**134,269**	129,489

(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 $25,505 million (2016: $26,224 million) of commercial paper issuances by National Australia Funding (Delaware) Inc. Commercial paper of $189 million (2016: $301 million) has been issued.
- The Company is responsible to its customers for any direct loss suffered as a result of National Nominees Limited failing to perform its obligations to the Company.
- The Company and National Wealth Management Services Limited (NWMSL) have been granted licences by the Safety, Rehabilitation and Compensation Commission (the Commission) to operate as self-insurers under the Commonwealth Government Comcare Scheme. Under these arrangements, the Company has agreed that, in the event it is proposed that NWMSL no longer continues as a wholly owned controlled entity of the Company, the Company will provide the Commission with a guarantee of the then current workers' compensation liabilities of NWMSL.
- The Company has issued letters of support in respect of certain subsidiaries 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.

The Company is no longer party to nor has any outstanding liabilities under a deed of cross guarantee with certain controlled entities. Previously, pursuant to Australian Securities and Investment Commission Class Order 98/1418 dated 13 August 1998 (Class Order), relief was granted to certain controlled entities from the *Corporations Act 2001* (Cth) requirements for preparation, audit and publication of annual financial reports. It was a condition of the Class Order that the Company and each of the controlled entities enter into a deed of cross guarantee. On 28 September 2016, ASIC issued a new relief instrument replacing the Class Order, under which APRA regulated entities can no longer be a party to a deed of cross guarantee. As a result the deed of guarantee between the Company and certain controlled entities was revoked, with the deed of revocation taking effect on 29 September 2017.

Unrecognised items (continued)

33 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	
	2017	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**
Due within one year	**393**	371	**336**	322
Due after one year but no later than five years	**976**	963	**849**	833
Due after five years	**558**	613	**524**	575
Total non-cancellable operating lease commitments	**1,927**	1,947	**1,709**	1,730

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.

Risk disclosures

34 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.
- 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

A transparent and robust corporate governance structure is in place for the Group with supporting processes aimed to meet the needs and expectations of shareholders and stakeholders. The Board's key role is to create and deliver value to shareholders by effectively governing the Group, while having regard to the interests of all stakeholders. The Board has established a number of committees to assist it in carrying out its responsibilities and these operate under specific delegated authority granted by the Board and provide specialised focus on particular areas as articulated in their governance charters.

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

The Board delegates responsibility to the Group CEO to manage the day to day operations of the Group. At an executive level, risk management is led by the Group CEO and the Group Risk Return Management Committee (GRRMC) which is accountable for matters relating to culture, risk strategy and performance and integrated governance processes. A number of sub-committees support the GRRMC in governing specific material 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 Models Risk Committee (GMRC): models risk.
- Group Regulatory, Compliance and Operational Risk Committee (GRCORC): operational, regulatory and compliance risk.

First Line risk committees provide governance in support of the management of risk matters, including material risks across the value chain. Second Line risk specialists are members of these committees to provide oversight, review and challenge.

Risk management

Effective risk management, including a sound risk culture, is essential to achieving the Group's vision to be Australia and New Zealand's most respected bank. Maintaining focus on risk and compliance is a 'non-negotiable', with risk being one of the three foundations of the One NAB Plan.

The Group undertakes annual strategic planning to establish the strategic objectives and ensure that risk appetite and strategy are aligned.

The approach to risk management is based on a Three Lines of Defence model. Risk Management Accountabilities are allocated for risk ownership (first line) and functionally independent oversight (second line) and assurance (third line).

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.

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.

Notes to the financial statements

Risk disclosures (continued)

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 114.

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 maximum 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.

		Group		Company	
		2017	**2016**	**2017**	**2016**
	Footnote	**$m**	**$m**	**$m**	**$m**
Financial assets					
Cash and liquid assets	(a)	**42,664**	29,606	**41,117**	27,822
Due from other banks	(b)	**37,066**	45,236	**35,030**	43,359
Trading derivatives	(c)	**29,137**	43,146	**30,383**	42,467
Trading securities	(d)	**50,954**	45,971	**45,637**	41,513
Debt instruments at fair value through other comprehensive income	(d)	**42,131**	40,689	**42,029**	40,580
Other financial assets at fair value	(e)	**16,058**	21,496	**11,825**	14,831
Hedging derivatives	(c)	**3,892**	6,741	**3,816**	6,319
Loans and advances	(e)	**543,764**	513,691	**471,451**	444,646
Due from customers on acceptances	(e)	**6,786**	12,205	**6,786**	12,205
Due from controlled entities	(f)	**-**	-	**109,163**	119,414
Other assets	(f)	**7,649**	9,461	**5,920**	7,725
Total		**780,101**	768,242	**803,157**	800,881
Contingent liabilities	(g)	**19,572**	18,905	**18,607**	18,037
Credit-related commitments	(g)	**151,377**	146,803	**134,269**	129,489
Total		**170,949**	165,708	**152,876**	147,526
Total credit risk exposure		**951,050**	933,950	**956,033**	948,407

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 10 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 10 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 117.

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.

Notes to the financial statements

Risk disclosures (continued)

Credit risk from over-the-counter trading and hedging derivatives is mitigated where possible through netting arrangements whereby derivative assets and liabilities with the same counterparty can be offset in certain circumstances. Derivatives that are cleared through a central clearing counterparty or an exchange have less credit risk than over the counter derivatives and are subject to relevant netting and collateral agreements.

Collateral is obtained against derivative assets, depending on the creditworthiness of the counterparty and / or the nature of the transaction.

d) 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 117.

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) The balance of **Other assets** which is exposed to credit risk is primarily comprised of investments relating to life insurance business, interest receivable accruals and other receivables. Interest receivable accruals are subject to the same collateral as the underlying borrowings. Other receivables will mostly be unsecured. There are typically no collateral or other credit enhancements obtained in respect of amounts **Due from controlled entities**.

g) Contingent liabilities and credit-related commitments are comprised mainly of guarantees to customers, standby or documentary letters of credit, performance related contingencies and binding credit commitments. The Group will typically have recourse to specific assets pledged as collateral in the event of a default by a party for which the Group has guaranteed its obligations to a third party and therefore tend to carry the same credit risk as loans.

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss of an amount equal to the total unused commitments. However, the likely amount of loss is generally less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because, in general, longer term commitments have a greater degree of credit risk than shorter term commitments.

Features of the guarantees, letters of credit, performance-related contingencies and credit-related commitments are described in *Note 32 Contingent liabilities and credit commitments.*

Notes to the financial statements

Risk disclosures (continued)

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 beginning on page 111.

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.

	2017							
	Amount subject to enforceable netting arrangements							Amounts not subject to enforceable netting arrangements[(1)]
	Effect of offsetting on balance sheet			Related amounts not offset				
	Gross amounts	Amount offset[(2)]	Net amounts reported on balance sheet	Financial Instruments[(3)]	Non Cash Collateral[(4)]	Cash Collateral[(4)]	Net Amount	
Group	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Derivative financial assets [(5)]	46,967	21,160	25,807	17,149	181	6,128	2,349	7,222
Reverse repurchase agreements [(6)]	72,281	23,972	48,309	-	48,309	-	-	-
Total assets	119,248	45,132	74,116	17,149	48,490	6,128	2,349	7,222
Derivative financial liabilities [(7)]	46,770	21,160	25,610	17,149	406	5,247	2,808	3,251
Repurchase agreements [(8)]	67,417	23,972	43,445	-	43,445	-	-	-
Total liabilities	114,187	45,132	69,055	17,149	43,851	5,247	2,808	3,251

(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 in the Group of $1,729 million and $358 million were netted against Other assets and Other liabilities, respectively, and in the Company $1,391 million and $358 million, 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 as $29,137 million and $3,892 million, respectively (2016: $43,146 million and $6,741 million), and on the Company balance sheet as $30,383 million and $3,816 million, respectively (2016: $42,467 million and $6,319 million).*

(6) *Reverse repurchase agreements of $48,309 million (2016: $37,283 million) are reported on the Group balance sheet within Cash and liquid assets of $40,766 million (2016: $28,219 million) and Due from other banks of $7,543 million (2016: $9,064 million). Reverse repurchase agreements of $48,006 million (2016: $36,662 million) are reported on the Company balance sheet within Cash and liquid assets of $40,627 million (2016: $27,762 million) and Due from other banks of $7,379 million (2016: $8,900 million).*

(7) *Derivative financial liabilities comprise of both trading and hedging derivatives liabilities reported on the Group balance sheet as $27,187 million and $1,674 million, respectively (2016: $41,559 million and $3,402 million) and on the Company balance sheet as $27,065 million and $3,859 million, respectively (2016: $38,901 million and $6,701 million).*

(8) *Repurchase agreements of $43,445 million (2016: $34,422 million) are reported on the Group balance sheet within Due to other banks of $19,952 million (2016: $18,358 million) and Deposits and other borrowings of $23,493 million (2016: $16,064 million). Repurchase agreements of $43,822 million (2016: $34,249 million) are reported on the Company balance sheet within Due to other banks of $20,329 million (2016: $18,185 million) and Deposits and other borrowings of $23,493 million (2016: $16,064 million).*

Risk disclosures (continued)

Group [(2)]	Gross amounts	Amount offset	Net amounts reported on balance sheet	Financial Instruments	Non Cash Collateral	Cash Collateral	Net Amount	Amounts not subject to enforceable netting arrangements
	2016 [(1)]							
	Amount subject to enforceable netting arrangements							
	Effect of offsetting on balance sheet			Related amounts not offset				
	$m	$m	$m	$m	$m	$m	$m	$m
Derivative financial assets	72,789	30,998	41,791	30,356	290	7,786	3,359	8,096
Reverse repurchase agreements	58,812	21,529	37,283	-	37,283	-	-	-
Total assets	131,601	52,527	79,074	30,356	37,573	7,786	3,359	8,096
Derivative financial liabilities	71,040	30,998	40,042	30,356	230	8,623	833	4,919
Repurchase agreements	55,951	21,529	34,422	-	34,422	-	-	-
Total liabilities	126,991	52,527	74,464	30,356	34,652	8,623	833	4,919

Company [(2)]	Gross amounts	Amount offset	Net amounts reported on balance sheet	Financial Instruments	Non Cash Collateral	Cash Collateral	Net Amount	Amounts not subject to enforceable netting arrangements
	2017							
	Amount subject to enforceable netting arrangements							
	Effect of offsetting on balance sheet			Related amounts not offset				
	$m	$m	$m	$m	$m	$m	$m	$m
Derivative financial assets	**46,375**	**19,182**	**27,193**	**17,274**	**181**	**5,833**	**3,905**	**7,006**
Reverse repurchase agreements	**71,978**	**23,972**	**48,006**	**-**	**48,006**	**-**	**-**	**-**
Total assets	**118,353**	**43,154**	**75,199**	**17,274**	**48,187**	**5,833**	**3,905**	**7,006**
Derivative financial liabilities	**46,977**	**19,182**	**27,795**	**17,274**	**406**	**5,062**	**5,053**	**3,129**
Repurchase agreements	**67,794**	**23,972**	**43,822**	**-**	**43,822**	**-**	**-**	**-**
Total liabilities	**114,771**	**43,154**	**71,617**	**17,274**	**44,228**	**5,062**	**5,053**	**3,129**

Company [(2)]	Gross amounts	Amount offset	Net amounts reported on balance sheet	Financial Instruments	Non Cash Collateral	Cash Collateral	Net Amount	Amounts not subject to enforceable netting arrangements
	2016 [(1)]							
	Amount subject to enforceable netting arrangements							
	Effect of offsetting on balance sheet			Related amounts not offset				
	$m	$m	$m	$m	$m	$m	$m	$m
Derivative financial assets	72,668	30,998	41,670	28,557	290	7,516	5,307	7,116
Reverse repurchase agreements	58,191	21,529	36,662	-	36,662	-	-	-
Total assets	130,859	52,527	78,332	28,557	36,952	7,516	5,307	7,116
Derivative financial liabilities	72,237	30,998	41,239	28,557	230	7,407	5,045	4,363
Repurchase agreements	55,778	21,529	34,249	-	34,249	-	-	-
Total liabilities	128,015	52,527	75,488	28,557	34,479	7,407	5,045	4,363

(1) *Comparative information has been restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).*

(2) *Refer to the footnotes on the 2017 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 legally enforceable right of offset in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. During 2017, 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.

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 only be offset and closed out upon a default or insolvency event. In some instances the agreement provides the Group with a legally enforceable right of offset in all circumstances. In such a case and where there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously, the amounts with that counterparty will be offset on the balance sheet.

Where the Group has a right of offset on default or insolvency only, the related non cash collateral amounts comprise highly liquid securities, either obtained or pledged, which can be realised in the event of a default or insolvency by one of the counterparties. The value of such securities obtained or pledged must at least equate to the value of the exposure to the counterparty, therefore the net exposure is considered to be nil.

Credit 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 almost 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. Default occurs when a loan obligation is 90 days or more past due, or when it is considered unlikely that the credit obligation to the Group will be paid in full without recourse to actions, such as realisation of security.

Impaired exposures under the expected credit loss model consist of:
- Retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days or more past due with insufficient security to cover principal and arrears of interest revenue.
- Non-retail loans that are contractually 90 days or more past due and / or sufficient doubt exists about the ability to collect principal and interest in a timely manner.
- Off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.
- 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, non-financial information, 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 Loans and advances [(1)]		Company Loans and advances [(1)]		Group Acceptances		Company Acceptances	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Senior investment grade	**88,898**	120,988	**70,213**	104,680	**46**	49	**46**	49
Investment grade	**244,231**	199,305	**222,115**	178,473	**1,649**	2,871	**1,649**	2,871
Sub-investment grade	**197,525**	180,263	**167,249**	150,166	**5,091**	9,285	**5,091**	9,285
Total	**530,654**	500,556	**459,577**	433,319	**6,786**	12,205	**6,786**	12,205

(1) *For the year ended 30 September 2017, mortgages previously classified as Senior investment grade, have been reclassified as Investment grade and Sub-investment grade reflecting the impact of a model change for the Australian mortgage portfolio implemented during the September 2017 full year. Prior year comparatives have not been restated to reflect these changes.*

	Group Due from other banks		Company Due from other banks		Group Debt instruments at FVOCI		Company Debt instruments at FVOCI	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Senior investment grade	**34,934**	42,593	**32,898**	40,716	**41,842**	40,353	**41,754**	40,262
Investment grade	**2,064**	2,599	**2,064**	2,599	**289**	336	**275**	318
Sub-investment grade	**68**	44	**68**	44	**-**	-	**-**	-
Total	**37,066**	45,236	**35,030**	43,359	**42,131**	40,689	**42,029**	40,580

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).

	Loans and advances and loan commitments for which the loss allowance is measured at: [(1)]							
	Stage 1 12-months expected credit loss Not credit impaired		Stage 2 Lifetime expected credit losses Not credit impaired		Stage 3 Lifetime expected credit losses Credit impaired		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Group	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Senior investment grade	**148,251**	180,034	**-**	-	**-**	-	**148,251**	180,034
Investment grade	**308,478**	261,122	**4,142**	2,486	**-**	-	**312,620**	263,608
Sub-investment grade	**163,655**	152,435	**82,123**	74,316	**-**	-	**245,778**	226,751
Default	**-**	-	**1,971**	1,618	**5,658**	6,152	**7,629**	7,770
Total	**620,384**	593,591	**88,236**	78,420	**5,658**	6,152	**714,278**	678,163

(1) *For the year ended 30 September 2017, mortgages previously classified as Senior investment grade, have been reclassified as Investment grade and Sub-investment grade reflecting the impact of a model change for the Australian mortgage portfolio implemented during the September 2017 full year. Prior year comparatives have not been restated to reflect these changes.*

Risk disclosures (continued)

Group	Stage 1 12-months expected credit loss Not credit impaired 2017 $m	2016 $m	Stage 2 Lifetime expected credit losses Not credit impaired 2017 $m	2016 $m	Stage 3 Lifetime expected credit losses Credit impaired 2017 $m	2016 $m	Total 2017 $m	2016 $m
Acceptances for which the loss allowance is measured at:								
Senior investment grade	**48**	52	**-**	-	**-**	-	**48**	52
Investment grade	**1,661**	2,916	**89**	264	**-**	-	**1,750**	3,180
Sub-investment grade	**2,413**	5,154	**2,980**	5,022	**-**	-	**5,393**	10,176
Default	**-**	-	**-**	-	**30**	33	**30**	33
Total	**4,122**	8,122	**3,069**	5,286	**30**	33	**7,221**	13,441

Group	Stage 1 12-months expected credit loss Not credit impaired 2017 $m	2016 $m	Stage 2 Lifetime expected credit losses Not credit impaired 2017 $m	2016 $m	Stage 3 Lifetime expected credit losses Credit impaired 2017 $m	2016 $m	Total 2017 $m	2016 $m
Debt instruments at fair value through other comprehensive income for which the loss allowance is measured at:								
Senior investment grade	**41,842**	40,353	**-**	-	**-**	-	**41,842**	40,353
Investment grade	**289**	336	**-**	-	**-**	-	**289**	336
Sub-investment grade	**-**	-	**-**	-	**-**	-	**-**	-
Default	**-**	-	**-**	-	**-**	-	**-**	-
Total	**42,131**	40,689	**-**	-	**-**	-	**42,131**	40,689

Company	Stage 1 12-months expected credit loss Not credit impaired 2017 $m	2016 $m	Stage 2 Lifetime expected credit losses Not credit impaired 2017 $m	2016 $m	Stage 3 Lifetime expected credit losses Credit impaired 2017 $m	2016 $m	Total 2017 $m	2016 $m
Loans and advances and loan commitments for which the loss allowance is measured at:[(1)]								
Senior investment grade	**124,148**	157,981	**-**	-	**-**	-	**124,148**	157,981
Investment grade	**281,401**	234,402	**2,972**	1,975	**-**	-	**284,373**	236,377
Sub-investment grade	**142,730**	130,377	**65,836**	59,754	**-**	-	**208,566**	190,131
Default	**-**	-	**1,971**	1,614	**4,834**	4,832	**6,805**	6,446
Total	**548,279**	522,760	**70,779**	63,343	**4,834**	4,832	**623,892**	590,935

(1) *For the year ended 30 September 2017, mortgages previously classified as Senior investment grade, have been reclassified as Investment grade and Sub-investment grade reflecting the impact of a model change for the Australian mortgage portfolio implemented during the September 2017 full year. Prior year comparatives have not been restated to reflect these changes.*

Company	Stage 1 12-months expected credit loss Not credit impaired 2017 $m	2016 $m	Stage 2 Lifetime expected credit losses Not credit impaired 2017 $m	2016 $m	Stage 3 Lifetime expected credit losses Credit impaired 2017 $m	2016 $m	Total 2017 $m	2016 $m
Acceptances for which the loss allowance is measured at:								
Senior investment grade	**48**	52	**-**	-	**-**	-	**48**	52
Investment grade	**1,661**	2,916	**89**	264	**-**	-	**1,750**	3,180
Sub-investment grade	**2,413**	5,154	**2,980**	5,022	**-**	-	**5,393**	10,176
Default	**-**	-	**-**	-	**30**	33	**30**	33
Total	**4,122**	8,122	**3,069**	5,286	**30**	33	**7,221**	13,441

Risk disclosures (continued)

Company	Debt instruments at fair value through other comprehensive income for which the loss allowance is measured at: Stage 1 12-months expected credit loss Not credit impaired 2017 $m	2016 $m	Stage 2 Lifetime expected credit losses Not credit impaired 2017 $m	2016 $m	Stage 3 Lifetime expected credit losses Credit impaired 2017 $m	2016 $m	Total 2017 $m	2016 $m
Senior investment grade	**41,754**	40,262	**-**	-	**-**	-	**41,754**	40,262
Investment grade	**275**	318	**-**	-	**-**	-	**275**	318
Sub-investment grade	**-**	-	**-**	-	**-**	-	**-**	-
Default	**-**	-	**-**	-	**-**	-	**-**	-
Total	**42,029**	40,580	**-**	-	**-**	-	**42,029**	40,580

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.

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 2017 $m	2016 $m	Loans at amortised cost 2017 $m	2016 $m	Provisions for doubtful debts 2017 $m	2016 $m	Contingent liabilities and credit-related commitments 2017 $m	2016 $m
Government and public authorities	**236**	374	**1,942**	1,881	**1**	1	**1,257**	1,567
Agriculture, forestry, fishing and mining	**3,964**	5,835	**31,471**	29,530	**586**	726	**11,107**	11,381
Financial, investment and insurance	**472**	599	**22,648**	21,809	**115**	112	**24,431**	22,040
Real estate - construction	**143**	207	**2,604**	2,595	**43**	42	**2,150**	2,061
Manufacturing	**827**	1,007	**9,720**	9,381	**214**	242	**7,361**	8,183
Instalment loans to individuals and other personal lending (including credit cards)	**13**	26	**10,865**	11,062	**319**	309	**15,522**	15,683
Real estate - mortgage	**-**	-	**329,534**	314,557	**422**	253	**53,484**	52,367
Asset and lease financing	**-**	-	**11,674**	10,949	**111**	96	**119**	168
Commercial property services	**5,359**	6,650	**58,018**	51,583	**481**	363	**14,730**	13,549
Other commercial and industrial	**3,582**	5,166	**65,288**	60,344	**932**	970	**40,788**	38,709
Total	**14,596**	19,864	**543,764**	513,691	**3,224**	3,114	**170,949**	165,708

Group	Due from other banks 2017 $m	2016 $m	Debt instruments at fair value through other comprehensive income 2017 $m	2016 $m	Acceptances 2017 $m	2016 $m
Government and public authorities	**-**	-	**23,124**	23,488	**-**	-
Agriculture, forestry, fishing and mining	**-**	-	**-**	-	**763**	1,064
Financial, investment and insurance	**37,066**	45,236	**9,476**	10,148	**49**	113
Real estate - construction	**-**	-	**-**	-	**3**	10
Manufacturing	**-**	-	**-**	-	**130**	278
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	**-**	-	**-**	1
Real estate - mortgage	**-**	-	**9,480**	6,986	**-**	-
Commercial property services	**-**	-	**-**	-	**4,365**	8,258
Other commercial and industrial	**-**	-	**51**	67	**1,476**	2,481
Total	**37,066**	45,236	**42,131**	40,689	**6,786**	12,205

Risk disclosures (continued)

Company	Loans at fair value 2017 $m	Loans at fair value 2016 $m	Loans at amortised cost 2017 $m	Loans at amortised cost 2016 $m	Provisions for doubtful debts 2017 $m	Provisions for doubtful debts 2016 $m	Contingent liabilities and credit-related commitments 2017 $m	Contingent liabilities and credit-related commitments 2016 $m
Government and public authorities	**208**	330	**1,765**	1,745	**-**	-	**638**	734
Agriculture, forestry, fishing and mining	**2,086**	2,922	**19,085**	18,258	**440**	555	**9,789**	9,898
Financial, investment and insurance	**378**	518	**20,688**	20,221	**81**	82	**23,883**	21,557
Real estate - construction	**130**	185	**1,669**	1,777	**39**	40	**1,945**	1,894
Manufacturing	**514**	674	**7,170**	6,788	**171**	205	**5,932**	6,544
Instalment loans to individuals and other personal lending (including credit cards)	**3**	4	**9,489**	9,700	**296**	293	**12,889**	12,926
Real estate - mortgage	**-**	-	**293,212**	278,659	**354**	229	**49,688**	48,368
Asset and lease financing	**-**	-	**11,214**	10,478	**106**	92	**119**	168
Commercial property services	**4,520**	5,550	**50,257**	44,186	**420**	304	**12,861**	11,738
Other commercial and industrial	**3,087**	4,377	**56,902**	52,834	**788**	825	**35,132**	33,699
Total	**10,926**	14,560	**471,451**	444,646	**2,695**	2,625	**152,876**	147,526

Company	Due from other banks 2017 $m	Due from other banks 2016 $m	Debt instruments at fair value through other comprehensive income 2017 $m	Debt instruments at fair value through other comprehensive income 2016 $m	Acceptances 2017 $m	Acceptances 2016 $m
Government and public authorities	-	-	**23,124**	23,488	-	-
Agriculture, forestry, fishing and mining	**-**	-	**-**	-	**763**	1,064
Financial, investment and insurance	**35,030**	43,359	**9,402**	10,055	**49**	113
Real estate - construction	**-**	-	**-**	-	**3**	10
Manufacturing	**-**	-	**-**	-	**130**	278
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	**-**	-	**-**	1
Real estate - mortgage	**-**	-	**9,453**	6,970	**-**	-
Commercial property services	**-**	-	**-**	-	**4,365**	8,258
Other commercial and industrial	**-**	-	**50**	67	**1,476**	2,481
Total	**35,030**	43,359	**42,029**	40,580	**6,786**	12,205

Geographical concentrations of financial assets

The following tables show the geographical concentrations of financial assets as at 30 September:

Group	Australia 2017 $m	Australia 2016[(1)] $m	New Zealand 2017 $m	New Zealand 2016[(1)] $m	Other International 2017 $m	Other International 2016[(1)] $m
Cash and liquid assets	**8,682**	6,583	**146**	541	**33,836**	22,482
Due from other banks	**9,798**	12,297	**2,181**	1,975	**25,087**	30,964
Trading derivatives [(2)]	**13,698**	15,740	**2,303**	5,131	**13,136**	22,275
Trading securities	**45,452**	40,827	**5,317**	4,416	**185**	728
Debt instruments at fair value through other comprehensive income	**31,436**	29,075	**-**	-	**10,695**	11,614
Other financial assets at fair value	**11,125**	14,538	**4,887**	6,650	**46**	308
Hedging derivatives [(2)]	**3,840**	6,483	**8**	190	**44**	68
Loans and advances [(3)]	**456,147**	431,055	**69,427**	65,619	**14,551**	13,371
Due from customers on acceptances	**6,786**	12,205	**-**	-	**-**	-
Other assets [(2)]	**2,369**	1,390	**1,503**	1,156	**5,344**	7,203
Total	**589,333**	570,193	**85,772**	85,678	**102,924**	109,013

(1) *Comparative information has been restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).*

(2) *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 for further details.*

(3) *Loans and advances are disclosed on a total net basis.*

Notes to the financial statements

Risk disclosures (continued)

Company	Australia 2017 $m	Australia 2016[1] $m	Other International 2017 $m	Other International 2016[1] $m
Cash and liquid assets	**7,342**	5,423	**33,775**	22,399
Due from other banks	**9,948**	12,398	**25,082**	30,961
Trading derivatives [2]	**17,033**	19,456	**13,350**	23,011
Trading securities	**45,452**	40,785	**185**	728
Debt instruments at fair value through other comprehensive income	**31,436**	29,076	**10,593**	11,504
Other financial assets at fair value	**10,926**	14,523	**899**	308
Hedging derivatives [2]	**3,772**	6,250	**44**	69
Loans and advances [3]	**454,173**	428,406	**14,104**	12,915
Due from customers on acceptances	**6,786**	12,205	**-**	-
Other assets [2]	**1,532**	1,053	**5,061**	6,928
Total	**588,400**	569,575	**103,093**	108,823

(1) *Comparative information has been restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).*

(2) *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 for further details.*

(3) *Loans and advances are disclosed on a total net basis.*

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 Corporate and Institutional Banking and 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:

	As at 30 September		Average value during reporting period		Minimum value during reporting period[1]		Maximum value during reporting period[1]	
	2017	2016	2017	2016	2017	2016	2017	2016
Group	$m	$m	$m	$m	$m	$m	$m	$m
Value at Risk at a 99% confidence level								
Foreign exchange risk	**10.4**	15.5	**10.7**	14.5	**5.5**	10.8	**17.9**	19.2
Interest rate risk	**9.1**	8.0	**9.2**	8.4	**6.3**	6.4	**13.4**	11.4
Volatility risk	**5.1**	2.6	**4.3**	3.0	**1.4**	2.1	**10.5**	4.4
Commodities risk	**0.6**	0.7	**0.6**	0.6	**0.3**	0.4	**1.0**	0.9
Credit risk	**2.4**	1.4	**2.6**	1.4	**1.1**	0.7	**3.8**	1.9
Inflation risk	**1.8**	2.5	**2.3**	0.7	**1.8**	0.4	**3.2**	2.5
Diversification benefit	**(15.7)**	(14.6)	**(15.3)**	(13.7)	**n/a**	n/a	**n/a**	n/a
Total Diversified VaR at 99% confidence interval	**13.7**	16.1	**14.4**	14.9	**11.7**	10.8	**20.6**	19.6
Other market risks [2]	**0.6**	0.1	**0.4**	0.2	**0.1**	0.1	**0.8**	0.4
Total VaR for physical and derivative positions [3]	**14.3**	16.2	**14.8**	15.1	**11.8**	10.9	**21.4**	20.0

(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 2017 $m	2016 $m	Average value during reporting period 2017 $m	2016 $m	Minimum value during reporting period[1] 2017 $m	2016 $m	Maximum value during reporting period[1] 2017 $m	2016 $m
Value at Risk at a 99% confidence level								
Foreign exchange risk	**10.1**	15.5	**10.7**	14.5	**5.5**	10.8	**17.5**	19.3
Interest rate risk	**8.6**	7.8	**8.9**	8.5	**6.0**	6.7	**12.7**	11.4
Volatility risk	**5.1**	2.6	**4.3**	3.0	**1.4**	2.1	**10.5**	4.4
Commodities risk	**0.6**	0.7	**0.6**	0.6	**0.3**	0.4	**1.0**	0.9
Credit risk	**2.3**	1.2	**2.4**	1.2	**0.9**	0.5	**3.7**	1.6
Inflation risk	**1.8**	2.6	**2.3**	0.7	**1.8**	0.4	**3.2**	2.6
Diversification benefit	**(15.6)**	(14.0)	**(15.1)**	(13.6)	**n/a**	n/a	**n/a**	n/a
Total Diversified VaR at 99% confidence interval	**12.9**	16.4	**14.1**	14.9	**11.3**	10.6	**20.5**	19.3
Other market risks[2]	**0.6**	0.1	**0.4**	0.2	**0.1**	0.1	**0.8**	0.4
Total VaR for physical and derivative positions[3]	**13.5**	16.5	**14.5**	15.1	**11.4**	10.7	**21.3**	19.7

(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.

Key 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:

	2017			
Group	**As at 30 September $m**	**Average value $m**	**Minimum value $m**	**Maximum value $m**
Value at risk				
Australia [1]	**232.9**	**176.5**	**142.4**	**232.9**
New Zealand	**8.7**	**13.3**	**7.8**	**24.0**
Other International	**18.5**	**20.9**	**14.4**	**27.3**
Earnings at risk [2]				
Australia	**25.4**	**46.7**	**25.4**	**62.1**
New Zealand	**6.9**	**7.8**	**4.1**	**12.6**
Other International	**-**	**-**	**-**	**-**

(1) The Group implemented clarifications to APS 117 concerning the treatment of risk associated with government and near government debt securities in the estimation of VaR during the 2017 financial year. This resulted in an increase in reported VaR in comparison to the 2016 financial year.

(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.

	2016			
Group	**As at 30 September $m**	**Average value $m**	**Minimum value $m**	**Maximum value $m**
Value at risk				
Australia	64.1	65.7	47.4	90.1
New Zealand	4.1	13.7	4.1	24.8
Other International	18.6	36.2	12.3	82.7
Earnings at risk [1]				
Australia	40.3	51.0	28.6	79.0
New Zealand	4.1	9.3	3.9	14.8
Other International	-	5.9	-	22.5

(1) EaR amounts calculated under the IRRBB model include Australian Banking and other overseas banking subsidiary books, however excludes offshore branches. The Australia Region amount shows a centralised Australian Banking EaR reported within NAB.

	2017			
Company	**As at 30 September $m**	**Average value $m**	**Minimum value $m**	**Maximum value $m**
Value at Risk				
Australia [1]	**232.9**	**176.5**	**142.4**	**232.9**
Other International	**18.5**	**20.9**	**14.4**	**27.3**
Earnings at risk [2]				
Australia	**25.4**	**46.7**	**25.4**	**62.1**

(1) The Group implemented clarifications to APS 117 concerning the treatment of risk associated with government and near government debt securities in the estimation of VaR during the 2017 financial year. This resulted in an increase in reported VaR in comparison to the 2016 financial year.

(2) EaR amounts calculated under the IRRBB model for the Australia Region show a centralised Australian Banking EaR reported within NAB, excluding offshore branches.

	2016			
Company	**As at 30 September $m**	**Average value $m**	**Minimum value $m**	**Maximum value $m**
Value at Risk				
Australia	64.1	65.7	47.4	90.1
Other International	18.6	17.2	11.5	23.9
Earnings at risk [1]				
Australia	40.3	51.0	28.6	79.0

(1) EaR amounts calculated under the IRRBB model for the Australia Region show a centralised Australian Banking EaR reported within NAB, excluding offshore branches.

Risk disclosures (continued)

Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of wholesale borrowings and loan capital as they mature and the payment of interest on borrowings. 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 may be sold in times of market stress.
- Operating a prudent funding strategy which ensures appropriate diversification and limits maturity concentrations. The Group undertakes a conservative approach by imposing internal limits that are in addition to regulatory requirements.
- Maintaining a contingent funding plan designed to respond to the event of an accelerated outflow of funds from the Group.
- Requiring the Group to have the ability to meet a range of survival horizon scenarios, including name-specific and general liquidity stress scenarios.

The liquid asset portfolio held as part of these principles is well diversified by currency, tenor, counterparty and product type. The composition of the portfolio includes cash, Government, State Government and highly rated investment grade paper. The total liquid assets held at 30 September 2017 was $123,733 million (2016: $118,268 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 2017 the amount of eligible Internal RMBS held was $43,546 million (2016:$46,737 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 and regulatory requirements.

The Group maintains a strong focus on stable deposits both from a growth and quality perspective and continues to source deposits as a key funding source for funded assets. The Group increased the proportion of stable customer deposits as a source of funding in the 2017 financial year to 51% (2016: 49%) while reliance on other customer deposits remained stable at 7% (2016: 7%).

The Group supplements deposits raising via its term funding programmes, raising $36,818 million of term wholesale funding in the 2017 financial year (2016: $36,403 million) at a weighted average maturity of approximately 4.8 years to first call (2016: 5.4 years). The Group's issuance was in excess of term wholesale funding maturities in the 2017 financial year; this strategy supports the transition to NSFR compliance. In addition throughout 2017, the Group continued to access international and domestic short-term wholesale markets.

Risk disclosures (continued)

The following table shows the Group's funding position as at 30 September:

Core assets	2017 $m	2016 $m
Gross loans and advances	**543,764**	513,691
Loans at fair value	**14,596**	19,864
Other financial assets at fair value	**46**	271
Due from customers on acceptances	**6,786**	12,205
Other debt instruments at amortised cost	**584**	778
Total core assets	**565,776**	546,809
Funding and equity		
Customer deposits	**407,585**	390,500
Term wholesale funding	**156,846**	157,204
Certificates of deposit	**52,255**	46,018
Securities sold under repurchase agreements	**23,493**	16,064
Due to other banks [1]	**36,683**	43,903
Other short term liabilities	**24,035**	20,663
Total equity excluding preference shares and other contributed equity	**48,398**	47,998
Total funding liabilities and equity	**749,295**	722,350
Other liabilities		
Trading derivatives	**27,187**	41,559
Hedging derivatives	**1,674**	3,402
Other liabilities	**10,169**	9,399
Total liabilities and equity	**788,325**	776,710

(1) *Includes repurchase agreements due to other banks.*

Funded Balance Sheet

Funding sources [1]	2017 $m	2016 $m
Stable customer deposits [2]	**360,234**	341,883
Term funding greater than 12 months	**133,857**	120,044
Equity	**48,398**	47,998
Total stable funding	**542,489**	509,925
Short term wholesale funding	**97,041**	96,217
Term funding less than 12 months	**22,989**	37,160
Other deposits [3]	**47,351**	48,617
Total funding	**709,870**	691,919
Funded assets		
Liquid assets [4]	**107,904**	107,162
Other short term assets [5]	**31,060**	28,926
Total short term assets	**138,964**	136,088
Business and other lending [6]	**231,203**	227,219
Housing lending	**329,534**	314,557
Other assets [7]	**10,169**	14,055
Total long term assets	**570,906**	555,831
Total funded assets	**709,870**	691,919

(1) *Excludes repurchase agreements, trading and hedging derivatives, insurance assets and liabilities and any accruals, receivables and payables that do not provide net funding.*
(2) *Includes operational deposits, non-financial corporate deposits and retail / SME deposits.*
(3) *Includes non-operational financial institution deposits and certain offshore deposits.*
(4) *Regulatory liquid assets including high quality liquid assets and CLF eligible assets.*
(5) *Includes non-repo eligible liquid assets and trade finance loans.*
(6) *Excludes trade finance loans.*
(7) *Includes net derivatives, goodwill, property, plant and equipment and net of accruals, receivables and payables.*

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.

	2017						
Group	**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**	**Total $m**
Due to other banks	**9,113**	**27,421**	**191**	**3**	**-**	**-**	**36,728**
Other financial liabilities at fair value	**221**	**4,489**	**5,954**	**15,858**	**4,512**	**108**	**31,142**
Deposits	**233,382**	**130,706**	**87,418**	**9,972**	**3**	**-**	**461,481**
Other borrowings	**1,324**	**27,468**	**14,544**	**-**	**-**	**-**	**43,336**
Bonds, notes and subordinated debt	**-**	**2,969**	**14,501**	**88,118**	**24,962**	**-**	**130,550**
Other debt issues	**-**	**-**	**-**	**-**	**-**	**6,187**	**6,187**
Other financial liabilities	**412**	**2,573**	**-**	**-**	**33**	**-**	**3,018**
Hedging derivatives							
- contractual amounts payable	**-**	**590**	**2,073**	**7,895**	**5,630**	**-**	**16,188**
- contractual amounts receivable	**-**	**(338)**	**(1,344)**	**(5,484)**	**(4,720)**	**-**	**(11,886)**
Total cash flow payable	**244,452**	**195,878**	**123,337**	**116,362**	**30,420**	**6,295**	**716,744**
Contingent liabilities	**19,572**	**-**	**-**	**-**	**-**	**-**	**19,572**
Credit-related commitments	**151,377**	**-**	**-**	**-**	**-**	**-**	**151,377**
Total [(1)]	**170,949**	**-**	**-**	**-**	**-**	**-**	**170,949**

(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.*

	2016						
Group	**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**	**Total $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
Bonds, notes and subordinated debt	-	4,001	28,217	76,127	26,444	-	134,789
Other debt issues	-	-	-	-	-	6,248	6,248
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 and investment commitments	146,803	-	-	-	-	-	146,803
Total [(1)]	165,708	-	-	-	-	-	165,708

(1) *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.*

Risk disclosures (continued)

Company	At call $m	0 to 3 month(s) $m	3 to 12 months $m	2017 1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
Due to other banks	8,150	26,902	191	3	-	-	35,246
Other financial liabilities at fair value	-	61	1,007	3,628	1,738	108	6,542
Deposits	211,778	118,600	72,766	7,264	3	-	410,411
Other borrowings	1,324	27,279	14,544	-	-	-	43,147
Bonds, notes and subordinated debt	-	2,507	14,499	87,759	22,083	-	126,848
Other debt issues	-	-	-	-	-	6,187	6,187
Other financial liabilities	408	2,315	-	-	33	-	2,756
Hedging derivatives							
- contractual amounts payable	-	593	4,518	12,920	8,951	-	26,982
- contractual amounts receivable	-	(402)	(3,233)	(10,224)	(7,608)	-	(21,467)
Total cash flow payable	221,660	177,855	104,292	101,350	25,200	6,295	636,652
Contingent liabilities	18,607	-	-	-	-	-	18,607
Credit-related commitments	134,269	-	-	-	-	-	134,269
Total [1]	152,876	-	-	-	-	-	152,876

[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	At call $m	0 to 3 month(s) $m	3 to 12 months $m	2016 1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $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 and investment commitments	129,489	-	-	-	-	-	129,489
Total [1]	147,526	-	-	-	-	-	147,526

[1] 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.

Risk disclosures (continued)

Group	Less than 12 months 2017 $m	Greater than 12 months 2017 $m	No specific maturity 2017 $m	Total 2017 $m
Assets				
Cash and liquid assets	**43,826**	**-**	**-**	**43,826**
Due from other banks	**37,018**	**48**	**-**	**37,066**
Trading derivatives [(1)]	**-**	**-**	**29,137**	**29,137**
Trading securities	**11,396**	**39,532**	**26**	**50,954**
Debt instruments at fair value through other comprehensive income	**6,892**	**35,239**	**-**	**42,131**
Other financial assets at fair value	**6,103**	**9,755**	**200**	**16,058**
Loans and advances	**98,588**	**434,128**	**7,409**	**540,125**
Due from customers on acceptances	**6,786**	**-**	**-**	**6,786**
All other assets	**8,824**	**3,146**	**10,272**	**22,242**
Total assets	**219,433**	**521,848**	**47,044**	**788,325**
Liabilities				
Due to other banks	**36,683**	**-**	**-**	**36,683**
Trading derivatives [(1)]	**-**	**-**	**27,187**	**27,187**
Other financial liabilities at fair value	**9,934**	**19,589**	**108**	**29,631**
Deposits	**449,319**	**8,044**	**-**	**457,363**
Other borrowings	**43,241**	**-**	**-**	**43,241**
Bonds, notes and subordinated debt	**15,979**	**108,892**	**-**	**124,871**
Other debt issues	**-**	**-**	**6,187**	**6,187**
All other liabilities	**7,744**	**1,648**	**2,453**	**11,845**
Total liabilities	**562,900**	**138,173**	**35,935**	**737,008**
Net (liabilities) / assets	**(343,467)**	**383,675**	**11,109**	**51,317**

(1) *Trading derivatives have not been shown by contractual maturity because they are typically held for varying periods of time.*

Group	Less than 12 months 2016 [(1)] $m	Greater than 12 months 2016 [(1)] $m	No specific maturity 2016 [(1)] $m	Total 2016 [(1)] $m
Assets				
Cash and liquid assets	30,630	-	-	30,630
Due from other banks	42,926	2,310	-	45,236
Trading derivatives [(2)]	-	-	43,146	43,146
Trading securities	11,867	33,612	492	45,971
Debt instruments at fair value through other comprehensive income	6,971	33,718	-	40,689
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	10,667	6,622	10,003	27,292
Total assets	215,178	500,358	61,174	776,710
Liabilities				
Due to other banks	43,903	-	-	43,903
Trading derivatives [(2)]	-	-	41,559	41,559
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	8,035	3,151	1,619	12,805
Total liabilities	549,691	126,256	49,448	725,395
Net (liabilities) / assets	(334,513)	374,102	11,726	51,315

(1) *Comparative information has been restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).*

(2) *Trading derivatives have not been shown by contractual maturity because they are typically held for varying periods of time.*

Risk disclosures (continued)

Company	Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
	2017			
Assets				
Cash and liquid assets	**42,152**	**-**	**-**	**42,152**
Due from other banks	**34,982**	**48**	**-**	**35,030**
Trading derivatives [(1)]	**-**	**-**	**30,383**	**30,383**
Trading securities	**7,405**	**38,206**	**26**	**45,637**
Debt instruments at fair value through other comprehensive income	**6,891**	**35,138**	**-**	**42,029**
Other financial assets at fair value	**3,820**	**8,005**	**-**	**11,825**
Loans and advances	**80,579**	**381,333**	**6,365**	**468,277**
Due from customers on acceptances	**6,786**	**-**	**-**	**6,786**
All other assets	**7,270**	**2,796**	**122,331**	**132,397**
Total assets	**189,885**	**465,526**	**159,105**	**814,516**
Liabilities				
Due to other banks	**35,201**	**-**	**-**	**35,201**
Trading derivatives [(1)]	**-**	**-**	**27,065**	**27,065**
Other financial liabilities at fair value	**734**	**5,088**	**108**	**5,930**
Deposits	**401,463**	**5,495**	**-**	**406,958**
Other borrowings	**43,052**	**-**	**-**	**43,052**
Bonds, notes and subordinated debt	**15,530**	**105,785**	**-**	**121,315**
Other debt issues	**-**	**-**	**6,187**	**6,187**
All other liabilities	**6,939**	**3,270**	**109,998**	**120,207**
Total liabilities	**502,919**	**119,638**	**143,358**	**765,915**
Net (liabilities) / assets	**(313,034)**	**345,888**	**15,747**	**48,601**

(1) *Trading derivatives have not been shown by contractual maturity because they are typically held for varying periods of time.*

Company	Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
	2016 [(1)]			
Assets				
Cash and liquid assets	28,717	-	-	28,717
Due from other banks	41,049	2,310	-	43,359
Trading derivatives [(2)]	-	-	42,467	42,467
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	9,692	5,467	133,247	148,406
Total assets	188,702	442,094	182,603	813,399
Liabilities				
Due to other banks	42,649	-	-	42,649
Trading derivatives [(2)]	-	-	38,901	38,901
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	7,731	5,759	118,684	132,174
Total liabilities	493,691	107,301	163,855	764,847
Net (liabilities) / assets	(304,989)	334,793	18,748	48,552

(1) *Comparative information has been restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).*

(2) *Trading derivatives have not been shown by contractual maturity because they are typically held for varying periods of time.*

Risk disclosures (continued)

35 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 - Financial instruments that have been valued by reference to unadjusted quoted prices for identical financial assets or financial liabilities in active markets. Financial instruments included in this category are Commonwealth of Australia and New Zealand government bonds, and spot and exchange traded derivatives.
- Level 2 - Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for the financial asset or financial liability, either directly (as prices) or indirectly (derived from prices). Financial instruments included in this category are over-the-counter trading and hedging derivatives, semi-government bonds, financial institution and corporate bonds, mortgage-backed securities, loans measured at fair value, and issued bonds, notes and subordinated debt measured at fair value.
- Level 3 - Financial instruments that have been valued through valuation techniques incorporating inputs that are not based on observable market data. Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. Financial instruments included in this category are bespoke trading derivatives, trading derivatives where the credit valuation adjustment is considered unobservable and significant to the valuation, and certain asset-backed securities valued using unobservable inputs.

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** and **other debt issues** are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments and appropriate credit spreads; or in some instances are calculated based on market quoted prices when there is sufficient liquidity in the market.

	30 September 2017					30 September 2016				
	Carrying value	Fair Value Level 1	Level 2	Level 3	Fair Value	Carrying value	Fair Value Level 1	Level 2	Level 3	Fair Value
Group	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Financial assets										
Loans and advances	**540,125**	**-**	**5,896**	**534,843**	**540,739**	510,045	-	6,559	504,456	511,015
Financial liabilities										
Deposits and other borrowings	**500,604**	**-**	**500,910**	**-**	**500,910**	459,714	-	460,027	-	460,027
Bonds, notes and subordinated debt [(1)]	**124,871**	**9,341**	**117,788**	**-**	**127,129**	127,942	9,116	120,137	-	129,253
Other debt issues	**6,187**	**6,214**	**147**	**-**	**6,361**	6,248	6,015	220	-	6,235

(1) *Fair value hedge accounting is applied to certain bonds, notes and subordinated debt, and as a result the carrying amount includes fair value hedge adjustments.*

Risk disclosures (continued)

	30 September 2017					30 September 2016				
	Carrying value	Fair Value				Carrying value	Fair Value			
		Level 1	Level 2	Level 3	Fair Value		Level 1	Level 2	Level 3	Fair Value
Company	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Financial assets										
Loans and advances	**468,277**	**-**	**3,690**	**465,155**	**468,845**	441,321	-	4,283	438,418	442,701
Financial liabilities										
Deposits and other borrowings	**450,010**	**-**	**450,127**	**-**	**450,127**	416,241	-	416,435	-	416,435
Bonds, notes and subordinated debt [(1)]	**121,315**	**8,829**	**114,690**	**-**	**123,519**	123,226	8,578	116,149	-	124,727
Other debt issues	**6,187**	**6,214**	**147**	**-**	**6,361**	6,248	6,015	220	-	6,235

(1) *Fair value hedge accounting is applied to certain bonds, notes and subordinated debt, and as a result the carrying amount includes fair value hedge adjustments.*

(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 values recognised on the balance sheet are based on quoted market prices to the extent possible. Where a quoted market price is not available, a valuation technique will be applied to determine the fair value of the instrument. Inputs into such techniques include market interest rates, liquidity and other factors. The counterparty credit risk associated with an instrument is incorporated into the fair value of the instrument using a credit valuation adjustment (CVA). Funding value adjustments (FVA) are applied to uncollateralised over the counter derivatives to reflect funding costs and benefits to the Group. The fair values of specific classes of instruments are determined as follows:

- The fair values of **trading** and **hedging derivative** assets and liabilities are obtained from quoted closing market prices at reporting date, discounted cash flow models or option pricing models as appropriate.
- 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.
- The fair value of **equity instruments at fair value through other comprehensive income** is estimated on the basis of the actual and forecasted financial position and results of the underlying assets or net assets taking into consideration their risk profile.

	Fair value measurement as at 30 September 2017				Fair value measurement as at 30 September 2016 [(1)]			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Group	$m	$m	$m	$m	$m	$m	$m	$m
Financial assets								
Trading derivatives	**-**	**29,043**	**94**	**29,137**	689	42,157	300	43,146
Trading securities	**27,811**	**23,143**	**-**	**50,954**	21,661	24,310	-	45,971
Debt instruments at fair value through other comprehensive income	**3,407**	**38,297**	**427**	**42,131**	2,852	37,563	274	40,689
Other financial assets at fair value	**-**	**16,058**	**-**	**16,058**	43	21,416	37	21,496
Hedging derivatives	**-**	**3,892**	**-**	**3,892**	-	6,741	-	6,741
Investments relating to life insurance business [(2)]	**-**	**86**	**-**	**86**	-	86	-	86
Equity instruments at fair value through other comprehensive income [(3)]	**14**	**209**	**48**	**271**	9	-	264	273
Total financial assets measured at fair value	**31,232**	**110,728**	**569**	**142,529**	25,254	132,273	875	158,402
Financial liabilities								
Trading derivatives	**4**	**27,107**	**76**	**27,187**	771	40,533	255	41,559
Other financial liabilities at fair value	**279**	**29,352**	**-**	**29,631**	310	32,913	1	33,224
Hedging derivatives	**-**	**1,674**	**-**	**1,674**	-	3,402	-	3,402
Total financial liabilities measured at fair value	**283**	**58,133**	**76**	**58,492**	1,081	76,848	256	78,185

(1) *The 2016 comparative information has been restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).*

(2) *Investments relating to life insurance business are included in other assets on the balance sheet.*

(3) *Equity instruments at fair value through other comprehensive income are included in other assets on the balance sheet.*

Risk disclosures (continued)

Company	Fair value measurement as at 30 September 2017 Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Fair value measurement as at 30 September 2016 [1] Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets								
Trading derivatives	**-**	**30,289**	**94**	**30,383**	687	41,480	300	42,467
Trading securities	**24,805**	**20,832**	**-**	**45,637**	18,640	22,873	-	41,513
Debt instruments at fair value through other comprehensive income	**3,407**	**38,195**	**427**	**42,029**	2,852	37,454	274	40,580
Other financial assets at fair value	**-**	**11,825**	**-**	**11,825**	-	14,794	37	14,831
Hedging derivatives	**-**	**3,816**	**-**	**3,816**	-	6,319	-	6,319
Equity instruments at fair value through other comprehensive income [2]	**9**	**209**	**21**	**239**	9	-	231	240
Total financial assets measured at fair value	**28,221**	**105,166**	**542**	**133,929**	22,188	122,920	842	145,950
Financial liabilities								
Trading derivatives	**4**	**26,985**	**76**	**27,065**	771	37,875	255	38,901
Other financial liabilities at fair value	**279**	**5,651**	**-**	**5,930**	310	5,097	1	5,408
Hedging derivatives	**-**	**3,859**	**-**	**3,859**	-	6,701	-	6,701
Total financial liabilities measured at fair value	**283**	**36,495**	**76**	**36,854**	1,081	49,673	256	51,010

(1) *The 2016 comparative information has been restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).*

(2) *Equity instruments at fair value through other comprehensive income are included in other assets on the balance sheet.*

There were no material transfers between Level 1 and Level 2 during the year for the Group and the Company.

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	2017 Assets: Trading derivatives $m	Debt instruments at fair value through other comprehensive income $m	Other financial assets at fair value $m	Equity instruments at fair value through other comprehensive income [1] $m	Liabilities: Trading derivatives $m	Other financial liabilities at fair value $m
Balance at the beginning of year	**300**	**274**	**37**	**264**	**255**	**1**
Gains / (losses) on assets and (gains) / losses on liabilities recognised:						
In profit or loss [2]	**(191)**	**-**	**2**	**-**	**(180)**	**-**
In other comprehensive income	**-**	**(51)**	**-**	**-**	**-**	**-**
Purchases and issues	**5**	**312**	**-**	**17**	**-**	**-**
Sales and settlements	**(3)**	**-**	**(24)**	**(24)**	**4**	**-**
Transfers into Level 3 [3]	**-**	**16**	**-**	**-**	**-**	**-**
Transfers out of Level 3 [3]	**(13)**	**(124)**	**(15)**	**(209)**	**-**	**(1)**
Foreign currency translation adjustments	**(4)**	**-**	**-**	**-**	**(3)**	**-**
Balance at the end of year	**94**	**427**	**-**	**48**	**76**	**-**
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:						
In profit or loss	**(191)**	**-**	**2**	**-**	**(180)**	**-**
In other comprehensive income	**-**	**(51)**	**-**	**-**	**-**	**-**

(1) *Equity instruments at fair value through other comprehensive income are included in other assets on the balance sheet.*

(2) *Net gains or losses were recorded in other operating income.*

(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.*

Risk disclosures (continued)

Group	Assets – Trading derivatives $m	Assets – Debt instruments at fair value through other comprehensive income $m	Assets – Other financial assets at fair value $m	Assets – Equity instruments at fair value through other comprehensive income[(1)] $m	Liabilities – Trading derivatives $m	Liabilities – Other financial liabilities at fair value $m
2016						
Balance at the beginning of year	56	5	2,833	405	-	142
Gains / (losses) on assets and (gains) / losses on liabilities recognised:						
In profit or loss [(2)]	105	-	(26)	-	125	(1)
In other comprehensive income	-	(6)	-	(130)	-	-
Purchases and issues	192	124	-	4	164	-
Sales and settlements	-	-	(593)	-	-	(17)
Transfers into Level 3 [(3)]	24	156	-	-	-	1
Transfers out of Level 3 [(3)]	(38)	-	-	-	-	-
Foreign currency translation adjustments	(38)	(1)	(203)	(3)	(34)	(8)
Derecognised in respect of the disposal group	(1)	(4)	(1,974)	(12)	-	(116)
Balance at the end of year	300	274	37	264	255	1
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:						
In profit or loss	105	-	(12)	-	125	-
In other comprehensive income	-	(6)	-	(130)	-	-

(1) Equity instruments at fair value through other comprehensive income are included in other assets on the balance sheet.

(2) Net gains or losses were recorded in other operating income, interest expense or impairment losses as appropriate.

(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	Assets – Trading derivatives $m	Assets – Debt instruments at fair value through other comprehensive income $m	Assets – Other financial assets at fair value $m	Assets – Equity instruments at fair value through other comprehensive income[(1)] $m	Liabilities – Trading derivatives $m	Liabilities – Other financial liabilities at fair value $m
2017						
Balance at the beginning of year	**300**	**274**	**37**	**231**	**255**	**1**
Gains / (losses) on assets and (gains) / losses on liabilities recognised:						
In profit or loss [(2)]	**(191)**	**-**	**2**	**-**	**(180)**	**-**
In other comprehensive income	**-**	**(51)**	**-**	**(6)**	**-**	**-**
Purchases and issues	**5**	**312**	**-**	**7**	**-**	**-**
Sales and settlements	**(3)**	**-**	**(24)**	**-**	**4**	**-**
Transfers into Level 3 [(3)]	**-**	**16**	**-**	**-**	**-**	**-**
Transfers out of Level 3 [(3)]	**(13)**	**(124)**	**(15)**	**(209)**	**-**	**(1)**
Foreign currency translation adjustments	**(4)**	**-**	**-**	**(2)**	**(3)**	**-**
Balance at the end of year	**94**	**427**	**-**	**21**	**76**	**-**
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:						
In profit or loss	**(191)**	**-**	**2**	**-**	**(180)**	**-**
In other comprehensive income	**-**	**(51)**	**-**	**(6)**	**-**	**-**

(1) Equity instruments at fair value through other comprehensive income are included in other assets on the balance sheet.

(2) Net gains or losses were recorded in other operating income.

(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.

Risk disclosures (continued)

	2016					
	Assets				Liabilities	
Company	**Trading derivatives $m**	**Debt instruments at fair value through other comprehensive income $m**	**Other financial assets at fair value $m**	**Equity instruments at fair value through other comprehensive income[1] $m**	**Trading derivatives $m**	**Other financial liabilities at fair value $m**
Balance at the beginning of year	56	-	471	350	-	-
Gains / (losses) on assets and (gains) / losses on liabilities recognised:						
In profit or loss [2]	105	-	(12)	-	125	-
In other comprehensive income	-	(6)	-	(126)	-	-
Purchases and issues	192	124	-	7	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	231	255	1
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:						
In profit or loss	105	-	(12)	-	125	-
In other comprehensive income	-	(6)	-	(126)	-	-

(1) *Equity instruments at fair value through other comprehensive income are included in other assets on the balance sheet.*

(2) *Net gains or losses were recorded in other operating income, interest expense or impairment losses as appropriate.*

(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.*

The Group's exposure to fair value measurements based in full or in part on unobservable inputs is restricted to a small number of financial instruments, which comprise an insignificant component of the portfolios in which they belong. As such, a change in the assumptions used to value the instruments as at 30 September 2017 to reasonably possible alternatives would not have a material effect.

Notes to the financial statements

Risk disclosures (continued)

36 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.

	2017			2016		
Group	Repurchase agreements $m	Covered bonds $m	Securitisation $m	Repurchase agreements $m	Covered bonds $m	Securitisation $m
Carrying amount of transferred assets	**10,838**	**36,357**	**2,600**	8,582	37,466	3,536
Carrying amount of associated liabilities	**10,838**	**26,576**	**2,603**	8,582	26,983	3,553
For those liabilities that have recourse only to the transferred assets						
Fair value of transferred assets			**2,603**			3,543
Fair value of associated liabilities			**2,650**			3,589
Net position			**(47)**			(46)

	2017			2016		
Company	Repurchase agreements $m	Covered bonds $m	Securitisation $m	Repurchase agreements $m	Covered bonds $m	Securitisation $m
Carrying amount of transferred assets	**10,634**	**30,794**	**67,474**	8,354	32,740	72,946
Carrying amount of associated liabilities	**10,634**	**21,882**	**67,522**	8,354	23,105	72,946
For those liabilities that have recourse only to the transferred assets						
Fair value of transferred assets			**67,556**			73,174
Fair value of associated liabilities			**68,749**			73,835
Net position			**(1,193)**			(661)

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 bond program 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 bond 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 bond 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 vehicles 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.

Other information

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 31 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 32 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	
	2017	**2016**
	$m	**$m**
Balance at beginning of year	**2,015**	3,538
Net cash flows in amounts due (to) / from controlled entities	**(311)**	(2,841)
Net foreign currency translation movements and other amounts receivables	**(142)**	1,318
Balance at end of year	**1,562**	2,015

Material transactions with subsidiaries for the last two years to 30 September included:

	Company	
	2017	**2016**
	$m	**$m**
Net interest (expense)	**(779)**	(748)
Net operating lease (expense)	**(76)**	(67)
Net management fees (income)	**42**	41
Dividend revenue	**2,005**	2,199

During the 2017 financial year, there were transactions between NAB and MLC Limited, an entity over which the Group has significant influence. For related party disclosures about this associate, refer to *Note 31 Interest in subsidiaries and other entities.*

Superannuation plans

The following payments were made to superannuation plans sponsored by the Group:

	Group		Company	
	2017	**2016**	**2017**	**2016**
Payment to:	**$m**	**$m**	**$m**	**$m**
National Australia Bank Group Superannuation Fund A	**234**	240	**234**	240
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	**6**	10	**6**	10

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.

Other information (continued)

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		Other Payments	Total
	Cash salary fixed	Cash STI at risk	Non-monetary fixed	Super-annuation fixed		Shares at risk	Rights at risk		
NAB and the Group	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
2017	**15,131,897**	**5,886,665**	**753,714**	**566,112**	**158,015**	**2,166,797**	**10,664,807**	**2,796,294**	**38,124,301**
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

Performance rights and shareholdings of KMP are set out in the *Remuneration report* section of the *Report of the Directors.*

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 $14 million (2016: $15 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 2017, the total loan balances outstanding were $61 million (2016: $67 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*.

38 Remuneration of external auditor

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Audit Services				
Amounts paid or due and payable to Ernst & Young Australia	**10,437**	11,557	**7,284**	7,332
Amounts paid or due and payable to Ernst & Young Overseas	**4,020**	4,787	**1,986**	2,270
Total remuneration for audit services	**14,457**	16,344	**9,270**	9,602
Non-audit Services				
Audit related Services				
Amounts paid or due and payable to Ernst & Young Australia	**5,495**	5,783	**3,661**	3,593
Amounts paid or due and payable to Ernst & Young Overseas	**674**	1,065	**294**	156
Total remuneration for audit related services	**6,169**	6,848	**3,955**	3,749
All other Services				
Amounts paid or due and payable to Ernst & Young Australia	**1,843**	1,335	**1,771**	722
Amounts paid or due and payable to Ernst & Young Overseas	**235**	466	**-**	20
Total remuneration for all other services	**2,078**	1,801	**1,771**	742
Total remuneration for non-audit services	**8,247**	8,649	**5,726**	4,491
Total remuneration for audit and non-audit services (1) (2)	**22,704**	24,993	**14,996**	14,093

(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 connection 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 Board Audit Committee's pre-approval policies and procedures, refer to the NAB 2017 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 2017 and the fees paid or due and payable for those services are set out in the Report of the Directors.

Other information (continued)

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, retain and reward employees.
- 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 or conduct standards are not met. 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. Performance rights granted to employees are not eligible for any cash dividends until the service and performance conditions have been met and the performance rights are exercised.

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.

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 vary depending on the award. They include the NAB share price at the time of the grant, exercise price of the performance rights (which is nil), the expected volatility of NAB's share price, the risk-free interest rate and the expected dividend yield on NAB shares for the life of the performance rights. When estimating expected volatility, historic daily share prices are analysed to arrive at annual and cumulative historic volatility estimates (which may be adjusted for any abnormal periods or non-recurring significant events). Trends in the data are analysed to estimate volatility movements in the future for use in the numeric pricing model. The 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) provides 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 for awards made in respect of the 2016 performance year or prior years, aligns with both the level of risk and impact of the role on business performance and results. From the 2017 performance year, the length of deferral may range from 6 months to 90 months. A threshold is in place whereby deferral only applies to STI deferred amounts of $1,000 or more for awards made in respect of the 2016 performance year or prior years. From the 2017 performance year, the threshold will be $2,000 or more.

Generally, deferred 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 deferred 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 deferred STI shares. For further details on STI awards granted to senior executives of NAB, refer to the *Remuneration report* in the *Report of the Directors.*

Commencement shares (or performance rights granted for jurisdictional reasons) enable the buy-out of equity or other incentives 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 of foregone awards from previous employment. The shares may also be subject to restrictions and certain forfeiture conditions, including forfeiture (or lapsing) on resignation or if conduct standards are not met.

Notes to the financial statements

Other information (continued)

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.

Salary sacrifice shares were allocated on a monthly basis to UK employees when they nominated to contribute a portion of their gross salary to receive NAB shares. Salary sacrifice shares ceased to be offered in December 2015.

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.

Long-term incentives (LTI) taking the form of performance rights, help to align management decisions with the long-term performance of the Group through the use of challenging performance hurdles. The Executive LTI program is awarded to senior executives across the Group. An LTI maximum opportunity 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 all of an executive's performance rights will lapse on resignation and a pro rata portion will lapse on cessation of employment in other circumstances having regard to the time elapsed in the performance period (unless the Board so determines). Performance rights will also lapse if conduct requirements or performance hurdles are not met. The Board has absolute discretion to determine vesting or lapsing outcomes for the performance rights.

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 fully paid 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.

Details of shares and performance rights are set out in the following tables:

Employee share plans

	2017		2016	
	Fully paid ordinary shares granted during the year	Weighted average grant date fair value	Fully paid ordinary shares granted during the year	Weighted average grant date fair value
Employee share plans	**No.**	**$**	**No.**	**$**
Salary sacrifice shares [1]	-	-	16,409	30.48
Short-term incentive shares	**4,861,247**	**26.29**	5,256,310	24.91
Commencement and recognition shares	**553,179**	**31.18**	1,148,780	25.94
General employee shares	**1,092,862**	**29.17**	1,260,480	24.84

(1) *Salary sacrifice shares ceased to be offered in December 2015.*

The closing market price of NAB's shares at 30 September 2017 was $31.50 (2016: $27.87). The volume weighted average share price during the year ended 30 September 2017 was $30.24 (2016: $27.38).

Performance rights movements

	Performance rights [1]
	No.
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
Granted	831,510
Forfeited	(606,334)
Exercised	(259,315)
Expired	(1,674)
Equity instruments outstanding as at 30 September 2017	**4,887,668**
Equity instruments exercisable as at 30 September 2017	**-**
Equity instruments exercisable as at 30 September 2016	3,348

(1) *No exercise price is payable for performance rights.*

Other information (continued)

Performance rights outstanding

	2017		2016	
	Outstanding at 30 Sep	Weighted average remaining life	Outstanding at 30 Sep	Weighted average remaining life
Terms and conditions	**No.**	**months**	**No.**	**months**
External hurdle [(1)]	**4,464,645**	**24**	4,442,277	34
Internal hurdle [(2)]	**53,769**	**12**	89,600	16
Individual hurdle [(3)]	**369,254**	**9**	391,604	10

(1) *Performance hurdles based on NAB's relative TSR compared with peer companies.*

(2) *Performance hurdles based on achievement of internal financial measures such as cash earnings, ROE compared to business plan, cash ROE growth compared with peer companies and Net Promoter Score targets.*

(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.

	2017	2016
Weighted average values		
Contractual life (years)	**3.3**	3.7
Risk-free interest rate (per annum)	**1.89%**	2.23%
Expected volatility of share price	**20%**	18%
Closing share price on grant date	**$31.16**	$28.41
Dividend yield (per annum)	**7.40%**	5.90%
Fair value of performance rights	**$15.06**	$9.63
'No hurdle' value of performance rights	**$24.05**	$24.59
Expected time to vesting (years)	**3.03**	3.42

40 Capital adequacy

As an 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 effective 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 capital ratios described above, APRA sets Prudential Capital Ratios for each tier of capital for each ADI, at a level proportional to the ADI's overall risk profile. A breach of the required ratios under APRA's Prudential Standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital 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, entities involved in certain business activities (such as superannuation and funds management) are de-consolidated for the purposes of calculating capital adequacy and excluded from the risk based capital adequacy framework. The investment in these 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 10.06% as at September 2017. In July 2017, APRA announced a Common Equity Tier 1 (CET1) ratio target of at least 10.5% by 1 January 2020 for major banks to be viewed as 'unquestionably strong'. The Group expects that it can meet the new 'unquestionably strong' capital requirements in an orderly manner.

Other information (continued)

41 Discontinued operations

In the 2016 financial year, the Group executed two major divestments, the demerger and Initial Public Offering (IPO) of CYBG Group and the sale of 80% of Wealth's life insurance business to Nippon Life. Each of the transactions qualified as a discontinued operation.

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 Group balance sheet. The full prior period results of the life insurance business are presented within the life insurance business discontinued operation. The Group's share of current period profit associated with the retained investment in the life insurance business is presented within continuing operations. Refer to *Note 31 Interest in subsidiaries and other entities* for further detail.

Further to retaining a direct investment in the life insurance business, the Group has entered into a long term strategic 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 is a source of income for the Group in addition to the share of profits associated with the retained investment.

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). 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 32 Contingent liabilities and credit commitments* for further information on the Capped Indemnity). All conduct provisions recognised by NAB under the Conduct Indemnity Deed are presented within the CYBG discontinued operation and Provisions.

Analysis of loss for the year from discontinued operations

The results set out below represent the discontinued operations of Wealth's life insurance business and UK Banking operations as related to the CYBG demerger. Adjustments to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period are classified separately in discontinued operations in the current period. During the financial year to 30 September 2017, a net loss of $904 million before tax ($893 million after tax) was recognised in discontinued operations. This balance includes a loss of $853 million relating to the Conduct Indemnity Deed entered into with CYBG. Refer to *Note 32 Contingent liabilities and credit commitments* for further information on the Conduct Indemnity Deed.

	Year to	
	Sep 17	**Sep 16**
Total discontinued operations	**$m**	**$m**
Net loss from life insurance business discontinued operation	-	(1,123)
Net loss from CYBG discontinued operation	**(893)**	(4,945)
Net loss from discontinued operations	**(893)**	(6,068)

42 Events subsequent to reporting date

On 27 October 2017, the Group announced it had agreed a settlement with the Australian Securities and Investments Commission (ASIC) of the Bank Bill Swap Rate (BBSW) legal action. As part of the settlement the Group has agreed to a $10 million penalty, and to pay ASIC's costs of $20 million. The Group will also make a donation of $20 million to a financial consumer protection fund nominated by ASIC. The financial impact of this settlement has been reflected in the Group's results for the 2017 financial year.

On 2 November 2017, the Group announced an acceleration of its strategic agenda to enhance the customer experience and simplify the bank. A restructuring provision of between $500 million and $800 million is expected to be raised in the Group's interim financial report for the first half of the 2018 financial year.

Other than the matters noted above, there are no other items, transactions or events of a material or unusual nature that have arisen in the interval between 30 September 2017 to 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:

(a) in the opinion of the directors, the financial statements and the notes thereto as set out on pages 57 to 142 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 2017, and of the performance of NAB and the Group for the year ended 30 September 2017;

(c) in the opinion of the directors, at the date of this declaration, there are reasonable grounds to believe that NAB will be able to pay its debts as and when they become due and payable; and

(d) the directors have been given the declarations required by section 295A of the *Corporations Act 2001* (Cth).

Dated this 14th day of November 2017 and signed in accordance with a resolution of the directors.

Dr Kenneth R Henry
Chairman

Mr Andrew G Thorburn
Group Chief Executive Officer

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Independent Auditor's Report to the Members of National Australia Bank Limited

Report on the Audit of the Financial Report

Opinion

We have audited the Financial Report of National Australia Bank Limited (the Company) and its subsidiaries (collectively the Group), which comprises:
- the balance sheets as at 30 September 2017;
- the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies, and
- the Directors' declaration.

In our opinion the accompanying Financial Report is in accordance with the *Corporations Act* 2001, including:
- giving a true and fair view of the Company's and the Group's financial position as at 30 September 2017 and of their financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations* 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act* 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current year. These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. The key audit matters identified below relate to both the Company and the Group.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Report.

Why significant	How our audit addressed the key audit matter
Provisions for doubtful debts	
As described in Notes 1 *Principal accounting policies (g)(vi) Impairment of financial assets*, 17 *Provision for doubtful debts* and 34 *Financial risk management*, the provisions for doubtful debts are determined under application of Australian Accounting Standard AASB 9 *Financial Instruments* (AASB 9). This was considered 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 34 *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.	In assessing the provisions for doubtful debts, we performed the following procedures: We assessed the modelling techniques and methodology against the requirements of AASB 9. We assessed the design and tested the operating effectiveness of relevant 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: ▶ processes used to identify, assess and manage climate-related risks associated with the Group's loan portfolio; and ▶ adequacy of the disclosures in the Financial Report. We involved our Actuarial and IT specialists in areas that required specific expertise (i.e. data reliability and the expected credit loss model).

Why significant	How our audit addressed the key audit matter
Conduct risk and provisions	
As detailed in Note 32 *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 continues to hold a number of provisions for conduct costs. This was considered 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 and related provisions: ▶ 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 to the Group's financial reporting process. As audit procedures over IT systems and controls require specific expertise, we involved our IT specialists. We assessed the design and tested the operating effectiveness of the Group's IT controls, including those 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.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's Annual Financial Report for the year ended 30 September 2017, but does not include the Financial Report and our auditor's report thereon.

Our opinion on the Financial Report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act* 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the Financial Report, the Directors are responsible for assessing the Company's or Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional 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 Company's or Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Financial Report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the Financial Report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 30 to 54 of the Report of the Directors for the year ended 30 September 2017.

In our opinion, the Remuneration Report of the Company for the year ended 30 September 2017 complies with section 300A of the *Corporations Act* 2001.

Building a better
working world

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act* 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Melbourne

14 November 2017

Shareholder information

Twenty largest registered fully paid ordinary shareholders of the company as at 31 October 2017

	Number of shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	638,988,106	23.79
J P MORGAN NOMINEES AUSTRALIA LIMITED	319,495,521	11.90
CITICORP NOMINEES PTY LIMITED	155,591,328	5.79
NATIONAL NOMINEES LIMITED	116,541,888	4.34
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	60,215,855	2.24
BNP PARIBAS NOMS PTY LTD <DRP>	34,302,411	1.28
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	29,490,468	1.10
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	15,715,068	0.59
CPU SHARE PLANS PTY LTD	11,002,674	0.41
AMP GROUP	10,063,121	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>	5,266,070	0.20
MILTON CORPORATION LIMITED	4,821,472	0.18
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	4,337,375	0.16
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	4,301,302	0.16
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	3,148,790	0.12
UBS NOMINEES PTY LTD	2,936,331	0.11
BKI INVESTMENT COMPANY LIMITED	2,709,826	0.10
BOND STREET CUSTODIANS LIMITED <MACQ HIGH CONV FUND A/C>	2,464,378	0.09
Total	1,436,789,187	53.51

Substantial shareholders

As at 31 October 2017, BlackRock Group and its associated entities were substantial holders in the Company, holding 147,042,056 fully paid ordinary shares.

Distribution of fully paid ordinary shareholdings

	Number of shareholders	% of holders	Number of shares	% of shares
Range (number)				
1 – 1,000	329,157	57.74	126,198,065	4.70
1,001 – 5,000	192,188	33.71	427,500,237	15.92
5,001 – 10,000	30,795	5.40	214,097,502	7.97
10,001 – 100,000	17,472	3.07	356,766,284	13.29
100,001 and over	430	0.08	1,560,908,062	58.12
Total	570,042	100	2,685,470,150	100
Less than marketable parcel of $500	14,130		92,397	

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 2017

	Number of securities	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,685,550	8.43
J P MORGAN NOMINEES AUSTRALIA LIMITED	962,219	4.81
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	521,783	2.61
NATIONAL NOMINEES LIMITED	451,813	2.26
CITICORP NOMINEES PTY LIMITED	404,932	2.02
BNP PARIBAS NOMS PTY LTD <DRP>	248,922	1.24
LAVA CORPORATION PTY LTD <LAVA UNIT A/C>	197,749	0.99
MUTUAL TRUST PTY LTD	192,248	0.96
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	178,300	0.89
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	176,298	0.88
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	145,233	0.73
UBS NOMINEES PTY LTD	111,482	0.56
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	104,229	0.52
TAVERNERS NO 11 PTY LTD <BRENCORP NO 11 UNIT A/C>	102,980	0.51
AUST EXECUTOR TRUSTEES LTD <DDH PREFERRED INCOME FUND>	100,478	0.50
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	85,163	0.43
BALMORAL FINANCIAL INVESTMENTS PTY LTD <NO 2 A/C>	82,912	0.41
PENINSULA HARBOUR PTY LTD <PENINSULA HARBOUR UNIT A/C>	69,125	0.35
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	67,105	0.34
NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	66,885	0.33
Total	5,955,406	29.77

Distribution of NIS holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	27,547	91.68	6,765,113	33.83
1,001 – 5,000	2,216	7.38	4,332,962	21.66
5,001 – 10,000	169	0.56	1,166,000	5.83
10,001 – 100,000	100	0.33	2,151,709	10.76
100,001 and over	15	0.05	5,584,216	27.92
Total	30,047	100	20,000,000	100
Less than marketable parcel of $500	64		222	

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 2017

	Number of securities	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	596,866	3.94
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	244,712	1.62
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	233,460	1.54
NATIONAL NOMINEES LIMITED	211,379	1.40
J P MORGAN NOMINEES AUSTRALIA LIMITED	199,868	1.32
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	183,261	1.21
BNP PARIBAS NOMS PTY LTD <DRP>	129,894	0.86
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	129,659	0.86
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	117,081	0.77
DIMBULU PTY LTD	100,000	0.66
CITICORP NOMINEES PTY LIMITED	87,901	0.58
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	86,456	0.57
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	64,776	0.43
SNEATH & KING PTY LTD <SNEATH & KING S/F A/C>	52,330	0.35
RANDAZZO C & G DEVELOPMENTS PTY LTD	50,000	0.33
THE WALTER AND ELIZA HALL INSTITUTE OF MEDICAL RESEARCH	45,200	0.30
NAVIGATOR AUSTRALIA LTD <JB WERE LIST FIX INT SMA A/C>	43,505	0.29
AVANTEOS INVESTMENTS LIMITED <2477966 DNR A/C>	41,214	0.27
BKI INVESTMENT COMPANY LIMITED	39,775	0.26
LONGHURST MANAGEMENT SERVICES PTY LTD	38,809	0.26
Total	2,696,146	17.82

Distribution of NAB CPS holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	19,863	90.44	6,728,610	44.43
1,001 – 5,000	1,915	8.72	3,956,940	26.13
5,001 – 10,000	118	0.54	894,125	5.91
10,001 – 100,000	58	0.26	1,517,419	10.02
100,001 and over	9	0.04	2,046,180	13.51
Total	21,963	100	15,143,274	100
Less than marketable parcel of $500	13		21	

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.

Shareholder information

Twenty largest registered NAB Convertible Preference Shares II (NAB CPS II) holders as at 31 October 2017

	Number of securities	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,088,410	6.34
CITICORP NOMINEES PTY LIMITED	553,760	3.22
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	254,496	1.48
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	222,967	1.30
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	215,045	1.25
LONGHURST MANAGEMENT SERVICES PTY LTD	210,000	1.22
NATIONAL NOMINEES LIMITED	169,037	0.98
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	150,824	0.88
BNP PARIBAS NOMS PTY LTD <DRP>	145,579	0.85
NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	127,549	0.74
J P MORGAN NOMINEES AUSTRALIA LIMITED	121,213	0.71
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	105,553	0.61
IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	94,066	0.55
NAVIGATOR AUSTRALIA LTD <JB WERE LIST FIX INT SMA A/C>	89,162	0.52
DIMBULU PTY LTD	50,000	0.29
EASTCOTE PTY LTD <VAN LIESHOUT FAMILY A/C>	50,000	0.29
MCCUSKER FOUNDATION LTD <THE MCCUSKER CHARITABLE FNDN>	50,000	0.29
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	44,418	0.26
CITICORP NOMINEES PTY LIMITED <DPSL>	44,206	0.26
PAMDALE INVESTMENTS PTY LTD	40,950	0.24
Total	3,827,235	22.28

Distribution of NAB CPS II holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	20,520	89.86	7,006,051	40.80
1,001 – 5,000	2,093	9.17	4,236,887	24.67
5,001 – 10,000	135	0.59	968,907	5.65
10,001 – 100,000	75	0.33	1,595,652	9.29
100,001 and over	12	0.05	3,364,433	19.59
Total	22,835	100	17,171,930	100
Less than marketable parcel of $500	7		12	

Voting rights

Holders of Convertible Preference Shares II (CPS II) are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per CPS II on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the CPS II.

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 and NAB Convertible Preference Shares II, NAB Capital Notes, NAB Capital Notes 2, NAB Subordinated Notes 2, covered bonds and residential mortgage backed securities which are quoted on the ASX.
- Trust Preferred Securities, medium-term notes, subordinated notes and covered bonds which are quoted on the Luxembourg Stock Exchange.
- Medium-term notes and subordinated notes which are quoted on the Euro MTF market.
- Subordinated debentures which are quoted on The International Stock Exchange.
- Undated subordinated floating rate notes which are quoted on the London Stock Exchange.
- Medium-term notes and subordinated notes which are quoted on the NZX Debt Market.
- Medium-term notes and covered bonds which are quoted on the SIX Swiss Exchange.
- Medium-term notes which are quoted on the Taipei Exchange.

Unquoted securities

NAB has the following unquoted securities on issue as at 31 October 2017:

- 42,248 partly paid ordinary shares, of which there are 47 holders; and
- 4,881,151 performance rights, of which there are 142 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

Group Chief Financial Officer
Mr Gary A Lennon
BEc (Hons), FCA

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Company Secretary
Mrs Louise R Thomson
BBus (Distinction), FGIA

Group Investor Relations
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Corporate Responsibility
Postal address:
Corporate Responsibility
National Australia Bank Limited
700 Bourke Street
DOCKLANDS VIC 3008
Australia
Email: corporate.responsibility@nab.com.au

Shareholders' Centre website
The Group's website at 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).

Principal Share Register
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
ABBOTSFORD VIC 3067
Australia

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MELBOURNE VIC 3001
Australia

Local call: 1300 367 647
Fax: +61 3 9473 2500
Telephone and fax (outside Australia):
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Email: nabservices@computershare.com.au
Website: nabgroup.com/shareholder

United Kingdom Share Register
Computershare Investor Services plc
The Pavilions
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United Kingdom

Tel: +44 370 703 0197
Fax: +44 370 703 6101

Email: nabgroup@computershare.co.uk
Website: nabgroup.com/shareholder

United States ADR Depositary, Transfer Agent and Registrar contact details for NAB ADR holders:
Deutsche Bank Shareholder Services
American Stock Transfer & Trust Company
Peck Slip Station
P.O. Box 2050
NEW YORK NY 10272-2050
United States of America

Toll-free number: +1 866 706 0509
Direct Dial: +1 718 921 8137
Email: DB@amstock.com

Contact details for NAB ADR brokers & institutional investors:
US Tel: +1 212 250 9100
UK Tel: +44 207 547 6500
Email: adr@db.com

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.
90+ Days past due and gross impaired assets to GLAs	Loans and advances 90+ days past due but not impaired and impaired assets expressed as a percentage of Gross loans and acceptances. Calculated as the sum of 'Loans and advances past due but not impaired (Past due over 90 days)' (Refer to Note 16 Loans and advances on page 88) and 'Gross impaired assets' (Refer to Note 17 Provision for doubtful debts on page 89) divided by Gross loans and acceptances.
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.
Assets under management (AUM)	Represents the market value of funds for which the Group acts as Funds Adviser or Investment Manager.
Average equity (adjusted)	Average shareholders' equity, excluding non-controlling interests and other equity instruments (Refer to Note 26 Contributed Equity on page 98), when calculated on a statutory basis. When calculated on a cash earnings basis, Average equity (adjusted) is further adjusted for Treasury shares. Refer to 'Average balances' on page 5 for further information in relation to the calculation of average balances, including Average equity (adjusted).
Average interest earning assets	The average balance of assets held by the Group over the period that generate interest income. Refer to 'Average balances' on page 5 for further information in relation to the calculation of average balances, including Average interest earning assets.
Banking	Banking operations include the Group's: - Retail and Non-Retail deposits, lending and other banking services within Consumer Banking and Wealth, Business and Private Banking, Corporate and Institutional Banking, and NZ Banking - Wholesale operations comprising Global Capital Markets, Specialised Finance and Financial Institutions Business within Corporate and Institutional Banking and NZ Banking, and - Treasury operations within Corporate Functions and Other.
Bank levy	A levy imposed under the *Major Bank Levy Act 2017* on authorised deposit-taking institutions with total liabilities of more than $100 billion.
Basel III	Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and is effective for Australian Banks from 1 January 2013.
BBSW	Bank bill swap rate.
BNZ	Bank of New Zealand.
Business and Private Banking	Business and Private Banking focusses on serving priority small and medium (SME) customers via the NAB Business franchise and specialist services in key segments including Agriculture, Health, Government, Education, Community and Franchise. The division also serves NAB's micro and small business customers and includes Private Banking and JBWere.
Business lending	Lending to non-retail customers including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
Cash earnings	Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the September 2017 financial year has been adjusted for the following: - Distributions. - Fair value and hedge ineffectiveness. - Amortisation of acquired intangible assets.
Cash return on equity (cash ROE)	Cash earnings after tax expressed as a percentage of Average equity (adjusted), calculated on a cash earnings basis. Refer to 'Information about cash earnings' on page 4 for further information in relation to cash earnings.
CGU	Cash generating unit.
Common Equity Tier 1 (CET1) Capital	Common Equity Tier 1 (CET1) Capital is recognised as the highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of common shares; retained 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.
Consumer Banking and Wealth	Consumer Banking and Wealth comprises the NAB and UBank consumer banking divisions, and the Wealth divisions of Advice, Asset Management and Superannuation. The division provides customers with access to independent advisers, including mortgage brokers and the financial planning network of self-employed, aligned and salaried advisers in Australia.
Continuing Operations	Continuing operations are the components of the Group which are not discontinued operations.
Core assets	Represents gross loans and advances including acceptances, financial assets at fair value, and other debt instruments at amortised cost (classified in comparative periods as investments held to maturity).
Corporate and Institutional Banking	Corporate and Institutional Banking provides a range of lending and transactional products and services related to financial and debt capital markets, specialised capital, custody and alternative investments. The division serves its customers in Australia and globally through branches in the US, UK and Asia with specialised industry relationships and product teams.
Corporate Functions and Other	The Group's 'Corporate Functions' business includes functions that support all businesses including Treasury and Other Corporate Functions activities. Treasury acts as the central vehicle for movements of capital and structural funding to support the Group's operations, together with capital, balance sheet management and the liquid asset portfolio. Other Corporate Functions activities include Technology and Operations and Support Units.
Customer deposits	The sum of interest bearing, non-interest bearing and term deposits (including retail and corporate deposits). Calculated as the sum of 'Term deposits' (Refer to Note 18 Other financial liabilities at fair value on page 91 and Note 19 Deposits and other borrowings on page 92), 'On-demand and short-term deposits' (Refer to Note 18 Other financial liabilities at fair value on page 91 and Note 19 Deposits and other borrowings on page 92) and 'Deposits not bearing interest' (Refer to Note 19 Deposits and other borrowings on page 92).
Customer Funding Index (CFI)	Customer deposits (excluding certain short dated institutional deposits used to fund liquid assets) divided by core assets.
CYBG	CYBG PLC.
CYBG Group	CYBG PLC and its controlled entities.
Deferred STI rights	Deferred STI 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. 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.

Glossary

Term Used	Description
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. Generally, the shares may be retained on cessation of employment in other circumstances.
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 and National Capital Instruments.
EaR	Earnings at risk.
Earnings per share (EPS)	Basic and diluted earnings per share calculated in accordance with the requirements of AASB 133 "Earnings per Share".
Face value	The face value of each performance right is determined by the market value of a NAB share. NAB generally uses a five day weighted average share price to determine the face value at grant and on allocation.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.
Fair value and hedge ineffectiveness	Represents volatility from the Group's assets and liabilities designated at fair value, hedge accounting ineffectiveness from designated accounting hedge relationships, or from economic hedges where hedge accounting has not been applied.
Fair value (for the purposes of equity awards set out in the Remuneration Report)	The value of the awards provided are measured by reference to the grant date fair value of the shares and performance rights provided to employees. The 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. 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 include the NAB share price at the time of 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.
FCA	Financial Conduct Authority (formerly the UK Financial Service Authority).
FSI	Financial System Inquiry.
Full-time equivalent employees (FTEs)	Includes all full-time staff, part-time, temporary, fixed term and casual staff equivalents, as well as agency temporary staff and external contractors either self-employed or employed by a third party agency. Note: This does not include consultants, IT professional services, outsourced service providers and non-executive directors.
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.
Gross Loans and Acceptances (GLAs)	The total loans, advances and acceptances, including unearned and deferred fee income, excluding associated provisions for bad and doubtful debts. Calculated as the sum of 'Acceptances' (Refer to Balance sheets on page 61), 'Loans at fair value' (Refer to Note 14 Other financial assets at fair value' on page 82), and 'Total gross loans and advances' (Refer to Note 16 Loans and advances on page 88).
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.
High Quality Liquid Assets (HQLA)	Eligible assets that include cash, balances held with Central Banks along with securities issued by highly rated Governments and supranationals.
Housing lending	Mortgages secured by residential properties as collateral.
IFRS	International Financial Reporting Standards.
Impaired assets	Consist of: - Retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue - Non-retail loans which are contractually past due and 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).
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 *Corporations Act 2001* (Cth).
Leverage Ratio	The Leverage Ratio is a simple, transparent, non-risk based supplementary measure that use exposures to supplement the risk-weighted assets based capital requirements and is prepared in accordance with APRA's Prudential Standard APS111 "Capital Adequacy: Measurement of Capital".
Lifetime expected credit losses (ECL)	The expected credit losses that result from all possible default events over the expected life of a financial instrument.
Liquidity Coverage Ratio (LCR)	LCR measures the amount of high quality liquid assets held that can be converted to cash easily and immediately in private markets, to total net cash flows required to meet the Group's liquidity needs for a 30 calendar day liquidity stress scenario.
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.
LTI performance rights (or LTI rights)	An LTI performance right is a performance right granted under an LTI plan which is subject to long-term performance hurdles.
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.

Glossary

Term Used	Description
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 derived on a cash earnings basis expressed as a percentage of Average interest earning assets. For more information in relation to the calculation of Net interest margin, refer to ‘Information about Net interest margin’ on page 5.
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)	Net Promoter Score measures the net likelihood of recommendation to others of the customer’s main financial institution for retail or business banking. Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.
Net Stable Funding Ratio (NSFR)	The amount of available stable funding (ASF) relative to the amount of required stable funding (RSF).
NZ Banking	NZ Banking comprises the Retail, Business, Agribusiness, Corporate and Insurance franchises and Market Sales operations in New Zealand, operating under the ‘BNZ’ brand. It excludes BNZ’s Markets Trading operations.
Performance rights	A performance right, such as an LTI performance right, 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.
PRA	United Kingdom Prudential Regulation Authority.
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand.
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.
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.
Securitisation	Structured finance technique which involves pooling and packaging cash-flow converting financial assets into securities that can be sold to investors.
Senior executives	Key executives of NAB who are (or were) identified as KMP, including executive directors.
Short-term incentive (STI)	An ‘at risk’ opportunity for individuals to receive an annual performance-based reward. The actual STI reward that an individual will receive in any particular year will reflect both business and individual performance.
Special Purpose Entity (SPE)	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). An SPE may take the form of a corporation, trust, partnership or unincorporated entity. SPEs are often created with legal arrangements that impose strict limits on the activities of the SPE.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Statutory return on equity (ROE)	Statutory earnings after tax expressed as a percentage of Average equity (adjusted), calculated on a statutory basis.
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 Additional Tier 1 capital set out in APS111 "Capital Adequacy: Measurement of Capital".
Tier 2 capital	Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses; as 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 average assets	The average balance of assets held by the Group over the period, adjusted for disposed operations. Disposed operations include any operations that will not form part of the continuing Group. These include operations sold and those which have been announced to the market that have yet to reach completion. Refer to ‘Average balances’ on page 5 for further information in relation to the calculation of average balances, including Total average assets.
Total capital 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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